THE FUTURE OF HOUSING IN AMERICA: A COMPARISON OF THE UNITED KINGDOM AND UNITED STATES MODELS OF AFFORDABLE HOUSING

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THE FUTURE OF HOUSING IN AMERICA: A COMPARISON OF THE UNITED KINGDOM AND UNITED STATES MODELS OF AFFORDABLE HOUSING

Thursday, May 12, 2016

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND INSURANCE,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:02 a.m., in room 2128, Rayburn House Office Building, Hon. Blaine Luetkemeyer [chairman of the subcommittee] presiding.

Members present: Representatives Luetkemeyer, Royce, Garrett, Pearce, Posey, Stivers, Barr, Rothfus, Williams; Cleaver, Velazquez, Clay, Green, Beatty, and Kildee.

Ex officio present: Representative Waters.

Chairman LUETKEMEYER. The Subcommittee on Housing and Insurance will come to order.

Without objection, the Chair is authorized to declare a recess of the subcommittee at any time.

Today’s hearing is entitled, “The Future of Housing in America: A Comparison of the United Kingdom and United States Models of Affordable Housing.”

Before we begin, I would like to thank the witnesses for appearing before the subcommittee today. We look forward to your testimony.

I now recognize myself for 5 minutes to give an opening statement.

We have spent a great deal of time over the last year-and-a-half looking at the state of housing in America, examining the current environment and attempting to identify opportunities to serve more people in need.

From a 30,000 foot level, we need to assess whether or not our system is equipped to address needed reforms. Can we enhance the quality of services delivered? And can we improve the outcomes and livelihoods of residents?

These aren’t new conversations. And the affordable housing crisis isn’t unique to the United States. Today we will look outward beyond our borders to examine innovative methods and programs that aim to help more people and attract greater private and non-profit sector participation.
Under the bold leadership of Prime Minister Margaret Thatcher, the U.K. was able to pursue transformative housing policies that altered the course of their nation's welfare state. Prime Minister Thatcher, and Prime Minister Blair after her, envisioned a system that would facilitate a greater role for the private sector and affordable housing, including a right-to-buy policy which would give housing tenants the opportunity to purchase their homes over time.

The U.K. housing model also focused on the transfer of government-owned housing to nonprofit organizations, which in turn helped to expand the capacity of nonprofits to serve communities across Great Britain.

There are pros and cons to each aspect of these and other policies instituted in the United Kingdom. And we will use today's hearing as an opportunity to examine which aspects, if any, might work in the United States.

As a participating subcommittee of Speaker Ryan's Task Force on Poverty, Opportunity and Upward Mobility, we have been charged with exploring innovative solutions to combat poverty in America specifically regarding housing.

It is my hope that today's assessment of an alternative housing model will serve as a means of self-reflection on how our own Nation can approach affordable housing and, more importantly, how the United States can do better.

The topic for today's hearing is one of great interest and great complexity. To ensure that as clear a picture as possible be painted we have two public housing authority executives from different markets, two academics with extensive backgrounds of housing in both nations, and two researchers whose efforts to produce quality reports helped to inspire today's hearing.

The subcommittee thanks you all for participating today.

While all six witnesses before us represent varying perspectives, we all believe in the human desire for self-sufficiency, the pursuit of a better life, and a place to call home.

This hearing is not intended to provide us with a complete picture of what the future of public housing could or should look like in America, but it is our hope that today's conversation will help to spur additional discussions on potential solutions to the current state of housing in America.

I look forward to what promises to be a robust conversation.

And the Chair now recognizes the ranking member of the subcommittee, the gentleman from Missouri, Mr. Cleaver, for 5 minutes for an opening statement.

Mr. CLEAVER. Thank you, Mr. Chairman.

And I would like to thank the witnesses for contributing your valuable time to us today.

This hearing, I think, provides us with a unique opportunity to compare the housing system of the U.K. with our own.

With a rental affordability crisis looming, it seems to me that we must take a look at everything possible to look at innovative ways in which we can move housing into the 21st century for the American public. And I think that it is crucial that this subcommittee continue to assess ways to ensure that our constituencies have access to safe and affordable homes.
This hearing focuses on two reports: one entitled, “Lessons of the International Housing Partnership,” published by the Housing Partnership Network (HPN); and the other entitled, “Atlantic Exchange: Case Studies of Housing and Community Redevelopment in the United States and the United Kingdom,” published by the Urban Institute.

We have witnesses from both of these organizations as well as other interested stakeholders.

Now, here in the United States, many of us encourage home ownership opportunities for Americans of all walks of life. We also provide public housing and vouchers for our most economically vulnerable populations.

And I would like to thank the chairman, Chairman Luetkemeyer. On our recent trip to London we did meet with officials from the public housing sector of their government. It was a very good meeting and provided us with some stark contrasts between the U.S. and the U.K.

The HPN explores two Margaret Thatcher-era policies: the right to buy, which gave tenants the chance to purchase their units at a reduced rate; and the large-scale volunteer transfer program which transferred public housing, or what those in the United Kingdom call council housing, to nonprofit associations.

Both of these programs had a remarkable impact on the housing landscape of the United Kingdom as council housing was sold and transferred to the private sector. Much like the U.K., this country is struggling with the best way to preserve and create affordability with regard to housing units.

As we undertake this process, it is important to remember that much of our public housing is targeted to the most vulnerable: the elderly; the disabled; and the extremely low income.

It is also important to emphasize the significance of tenant protections, including the long-term preservation of affordable rent, one-to-one replacement, and strong tenant engagement.

I look forward to hearing from the witnesses and becoming dialogical as we proceed with the hearing.

Chairman Luetkemeyer. Thank you, Mr. Cleaver.

And with that, we will begin our testimony. Today, we welcome the testimony of Mr. Thomas Bledsoe, president and CEO, Housing Partnership Network; Dr. Harris Beider, professor of community cohesion at Coventry University in the United Kingdom; Ms. Susan Popkin, senior fellow, and director of the Neighborhoods and Youth Development Initiative, Metropolitan Housing and Communities Policy Center at the Urban Institute; Ms. Jaime Allison Lee, assistant professor of law and director of the Community Development Clinic at the University of Baltimore School of Law; Mr. Richard Gentry, president and CEO, San Diego Housing Commission; and Mr. Greg Russ, executive director, Cambridge Housing Authority.

Each of you will be recognized for 5 minutes to give your oral presentation. And without objection, your written statements will be made a part of the record.

Mr. Bledsoe, you are recognized for 5 minutes. Welcome.
STATEMENT OF THOMAS A. BLEDSOE, PRESIDENT AND CHIEF EXECUTIVE OFFICER, HOUSING PARTNERSHIP NETWORK

Mr. BLEDSOE. Thank you very much. Good morning, Chairman Luetkemeyer, Ranking Member Cleaver, and other members of the subcommittee. It is a great pleasure to be here and I appreciate the opportunity to submit not just the testimony, but also the report that we provided to Congress.

I am Tom Bledsoe, the president and CEO of the Housing Partnership Network. We are a membership organization of a hundred of some of the top nonprofits in the United States.

I am not going to go into the great depth that I went into in my testimony given the time, but I did want to make five points that I think would be kind of helpful and important.

First, a little bit of background on myself and the kind of organization that I run and that I represent. I started in local and State Government, was the head of the Mayor's Office on Neighborhood Services in Boston, and then the Deputy Secretary of the State Office of Communities and Development. I learned a lot about government, what government can do, the important role it plays.

I also learned what it had a hard time doing. And I think the adage goes that government is—it is best to steer and not to row.

I moved from government to run a public/private partnership, a nonprofit called the Metropolitan Boston Housing Partnership. It was created really as a new style of nonprofit. It used a social mission, kind of the public mission that I knew very well from government, but it worked very closely with the private sector. And we used private sector business models to try to bring flexibility and to be able to bring private capital to bear to accomplish a public and social mission.

This particular organization I ran was formed in partnership with the City of Boston and the private sector. Bill Edgerly, chairman of State Street Bank, was the chairman. We had very strong private sector, community, and governmental involvement. It was really a partnership-style organization.

It hadn't existed before. And I think that model was really embraced in a lot of other cities around the country.

We then played a role in helping form a network of these organizations. They exist in a lot of your districts: Bridge Housing out in California; Mercy Housing out in California; Abode in Los Angeles; National Church Residences in Columbus, Ohio; Homeport in my own City of Boston; and the Planning Office of Urban Affairs, Community Builders, and Atlanta Neighborhood Development Partnership in the South.

These organizations really embraced what I would call a social enterprise model. Again, a social and sort of public mission first that was driven by mission, but would very much use private sector business models, and would operate at scale.

These organizations can partner with government to do things that the public sector wants to get accomplished, but it has a hard time leveraging the kind of capital and the flexibility that we can do in the private sector.

So private sector, nonprofit organizations, but very different than the small neighborhood CDCs and certainly a little bit different than sort of public agencies.
The second point I would like to make is, why did we go to the U.K.? We were having a lot of progress in the United States growing these organizations, but we saw in the United Kingdom a scale that we hadn't accomplished here. So we took a very large group of our CEOs, our board is made up of our CEOs, we brought them to the U.K. to explore the U.K. system. And we found a number of important things.

We found a system that was much more scaled, where the government invested in this delivery system and recognized it as a counterparty that can get things done that it couldn't do itself.

It had a model that allowed for portfolio flexibility, bringing much more management efficiencies to bear and a way of raising private capital that our project-based system, where you are really focusing on the project rather than the portfolio or the sponsor, had a harder time doing.

And the third thing is that they were very resident-focused. Residents were central to their model. Decisions to transfer stock, which you have referenced, Congressman Cleaver, which was a very large way that they grew to scale, those decisions were made by the residents themselves about whether or not they wanted the housing transferred, and to whom they wanted to transfer it.

And we found that our British colleagues, with whom we had so much in common, focused more on the residents honestly than we did because we were so caught up in assembling financing.

That said, we found real peers there and we built over 15 years a collaboration that has been very rich and enduring.

The network, in addition to doing these peer changes, is a business itself. We have a set of companies that we run. We have created an insurance company to insure 70,000 units of our members' properties, which leverages capital from the private sector. We now insure $7 billion worth of property.

We created a REIT using some of the portfolio models that we saw in the U.K., which has now raised $140 million and is assembling capital from major financial institutions and foundations.

We created a procurement company creating a joint venture with a British firm that had more expertise.

Now, why were the Brits interested in us? Well, they found that in the United States because we didn't have this more top-down, government-driven system, that we were much more entrepreneurial. We worked with the private sector; we knew how to leverage capital from the private sector. We were forced to because the only way to assemble, as you know, resources in the United States is to raise capital from all sorts of sources. So they liked our entrepreneurship.

We have now taken some of those models and have made some progress in the United States. I know you have seen some of the work that the British have done. We have built portfolio models in the United States that have been successful. We would like to advance that further.

We think there are lessons that can be adopted from the British, but there are also things that we do very well. And so our view is that it is really a combination of the two systems that makes the most sense. There is a convergence going on.
We look forward to working with you and figuring out what best lessons to take. We have a set of policy recommendations, I won't get into them now, but in questions and answers, if you would like to talk about them, I would be glad to go into more detail.

Thank you very, very much.

[The prepared statement of Mr. Bledsoe can be found on page 52 of the appendix.]

Chairman Luetkemeyer. Thank you, Mr. Bledsoe.

Dr. Beider, you are recognized for 5 minutes.

STATEMENT OF HARRIS BEIDER, PROFESSOR, COMMUNITY COHESION, CENTRE FOR TRUST, PEACE AND SOCIAL RELATIONS, COVENTRY UNIVERSITY, UNITED KINGDOM

Mr. Beider. Mr. Chairman and members of the subcommittee, thank you for inviting me to appear here today for this hearing.

For the past 15 years, I have been conducting research on housing community engagement and change, lately at Coventry University, but also at Columbia University in New York City.

Previously, I led two national organizations in the U.K. In addition, I have conducted two research projects comparing housing and redevelopment initiatives in the U.S. and the U.K.

Affordable housing in the U.K. springs from the ethos of the welfare state. Housing organizations have used their anchor position with a city and neighborhood to organize training programs to provide tenants with the skills necessary to compete in the job market, have created social enterprises, and have attracted private sector investment support and renewal.

These activities that focus on social investment have sometimes been viewed as added value or housing-plus initiative.

Private housing tenure and creating a property-owning democracy have become key and shared political objectives both in the U.S. and the U.K. Public housing has become stigmatized in both countries, with the worst housing stock being demolished and replaced with mixed-income and mixed-tenure housing, while the national or Federal Governments have encouraged housing organizations to become more efficient and deliver a wider range of housing products with fewer resources.

There is prior significant research comparing affordable housing in the U.K. and the U.S. Most notably, the public and assisted housing sector in the U.S. is just under 2 percent of total housing stock, while in the U.K. that figure is 16 percent.

In the U.S., public sector housing is characterized by segregation in both race and income, while in the U.K. it is characterized by income rather than race. In the U.K., living in public housing is not as stigmatized as it is in the U.S. And while mobility is guaranteed in the U.S. by a housing voucher, in the U.K. mobility is characterized by credits paid to individuals to use towards rental payments and programs such as the right to buy which allow for the purchase of council housing at deep discounts.

The right-to-buy policy was a concerted attempt to deregulate and privatize the affordable housing sector. For those who were successful, increasing levels of home ownership led to capital accumulation. That was part of the “Thatcherite” revolution of the 1980s. However, it contributed to a housing crisis when housing
units were not replaced and consequentially rents increased exponentially.

A few years before the HOPE VI program began in the U.S., the 1988 housing act was passed in the U.K. and was transformative. In addition to introducing the concept of borrowing to support the development and management of affordable housing, local authorities now had an opportunity to repair and renew their housing stock through a process of large-scale voluntary transfer.

The process was underpinned by a number of factors, including securing the support of the majority of tenants in a secret ballot, transferring stock from the private local authority to a private albeit not-for-profit housing association, and attracting investment from capital markets to repair stock.

By 2008, 1.3 million homes had been transferred from local authorities to housing associations, 14 billion pounds had been invested to repairing housing, and more than 2 million residents had benefited from the process.

This process has reshaped social housing in the U.K. By 2015 there had been 300 stock transfers involving more than 200 local authorities, shifting over 1 million properties from the public to the private sector. These new organizations now account for 44 percent of the 2.7 million housing association homes in the U.K.

Some housing advocates have criticized the policy as being backdoor privatization of government assets and point out that the focus of housing associations has shifted to working more with finances than tenants, with the latter facing the prospect of eroding housing rights, higher rents and less accountability.

If you now turn to the housing and planning building conclusion, the topic of housing in a general election and affordable housing specifically was given a high profile during the campaign. This led to debates about who should have access to social housing and whether reliance on social housing led to welfare dependency.

Some have suggested that the new government proposal contained in the bill could lead to the death of affordable housing. And indeed, the next leader of the housing association lamented that the housing bill signals the end of the road for truly affordable housing in England.

In conclusion, affordable housing continues to be an important part of the housing equation in the United Kingdom. Looking to the future, there is a risk that affordable housing, as it has been known in the U.K., will cease to exist.

It should not be overlooked or underestimated how important affordable housing can be to the stability of a person, a family or a community, particularly as it relates to sustaining employment.

Continued investment in affordable housing should be an important component of a national housing policy alongside other housing choices favored by many consumers and lenders.

Thank you.

[The prepared statement of Dr. Beider can be found on page 38 of the appendix]

Chairman LUETKEMEYER. Thank you, Dr. Beider.

Dr. Popkin, you are now recognized for 5 minutes.
Ms. POPKIN. Thank you. Mr. Chairman and members of the sub-committee, thank you for inviting me here today.

For the past 30 years, I have been researching how Federal and local programs affect the lives of the most vulnerable public housing residents. My testimony will focus on the United States housing system.

The U.S. and the U.K. face similar challenges: rising rents; and an aging stock of subsidized housing. Both countries have gradually shifted toward more engagement with the private sector.

In the United States, the Housing Choice Voucher provides subsidies for tenants to rent units in the private market. Private organizations own and manage deeply subsidized properties through the Project-Based Section 8 program. And private developers use low-income housing tax credit, LIHTC, to build new, affordable housing.

However, there are fundamental differences. First, housing in the U.K. is an entitlement and an essential part of the safety net, and a far larger proportion of the low-income households in the U.K. receive housing benefits and live in social housing.

Second, the U.K. does not have the same legacy of racial segregation and discrimination as the U.S. Because of this legacy, much federally subsidized housing stock is located in predominantly minority, chronically disadvantaged, high-crime neighborhoods.

Federal housing assistance has evolved over the past 50 years, but substantial challenges remain to effectively serving low-income families. The Housing Choice Voucher or Section 8 program was explicitly designed to shift housing provision to the private sector. Those lucky enough to receive this assistance clearly benefit from lower housing costs.

Living in decent, affordable housing and paying a lower rent yields other important benefits as well. There is evidence that poor families who receive vouchers are less likely to double up or experience homelessness. They are also less likely to face food insecurity and are able to spend more on their children’s educational enrichment.

But availability of U.S. Federal rental assistance falls far short of needs. For every 100 low-income households receiving Federal rental assistance, another 298 are eligible, but are waiting for help.

The fundamental problem in the U.S. is that nationwide rents have risen faster than incomes for a growing segment of the workforce. This is primarily the result of widening income inequality, with incomes rising much more slowly for low- and moderate-wage workers than those in high-skill, high-wage jobs.

The gap between the ability to pay and rents in the marketplace is particularly acute for the poorest households.

The Project-Based Section 8 program has also seen its stock shrink over time. Almost no units have been added since the early 1980s and units are being removed from this inventory as owners opt out of the program.
LIHTC properties are developed by private sector housing developers akin to the housing associations in the U.K., but the LIHTC program does not require, nor does it provide sufficient subsidies to allow rents to be capped at 30 percent of a resident’s income, so these units do not generally serve the same deeply poor population as depend on public housing or Federal housing subsidies.

The U.S. and the U.K. have also used similar approaches to revitalizing their aging housing stock, but they differ significantly in the level of government investment.

HOPE VI was the largest public housing transformation effort in the United States. My research shows that it produced important improvements in housing quality, community conditions, and resident well-being, and produced fewer new public housing units than were torn down.

In the U.K., the government provided much more generous funding for the comprehensive redevelopments that occurred there.

In the U.S., HOPE VI and now Choice Neighborhoods sites, served only extremely low-income tenants and didn’t have the diversity of incomes that they had in the U.K. Funding for resident services was relatively limited. And because of the legacy of segregation and discrimination, U.S. developments are located in more disadvantaged neighborhoods, meaning the challenges to revitalization are higher.

Finally, RAD will bring new money into the system, but it is too early to say how effective it will be in generating new housing units or protecting the affordable housing stock.

Another question before us today is whether a home ownership model, like the U.K.’s right to buy, could succeed in the U.S. and help subsidized tenants move toward self-sufficiency or help bridge the affordable housing gap.

The evidence from our research suggests that this approach will not work well here, does not help build wealth, and in fact could place low-income households at greater risk for instability.

Right to buy in the U.K. has taken some of the highest-quality units out of the supply of housing stock. It seems likely the same could happen in the United States.

Privatization will not solve the fundamental challenge in the United States. Rising inequality and rising rents mean the need for affordable housing far exceeds the demand, leaving too many households at risk for severe housing cost burdens, instability, and homelessness.

Many of HUD’s programs have proven their potential to help address these challenges, but their scale and capacity falls woefully short of what will inevitably be needed. Ongoing improvements in program implementation and expanded scale would be welcome.

An even more ambitious idea for eliminating homelessness and housing hardship and advancing the potential of assisted housing policy to improve the long-term life chances of poor and vulnerable populations would take us closer to the U.K. system, treating housing as an entitlement and an essential part of the safety net.

I recognize that implementing these ideas would both be costly and politically challenging, but I offer them as conversation starters for HUD’s next 50 years.

Thank you very much.
Chairman Luetkemeyer. Thank you, Dr. Popkin. That was very close to 5 minutes, so thank you very much.

Ms. Lee, you are now recognized for 5 minutes.

STATEMENT OF JAIME ALISON LEE, ASSISTANT PROFESSOR OF LAW, AND DIRECTOR, COMMUNITY DEVELOPMENT CLINIC, UNIVERSITY OF BALTIMORE SCHOOL OF LAW

Ms. Lee. Chairman Luetkemeyer, Ranking Member Cleaver, and members of the subcommittee, thank you for inviting me here today.

I am Jaime Lee, assistant professor of law at the University of Baltimore, and I published an article last year entitled, “Rights at Risk in Privatized Public Housing.” And before becoming an academic, I practiced in a private law firm representing public housing authorities across the country who were engaged in HOPE VI and other redevelopment activities.

So I appreciate your inquiry today about how to creatively solve our affordable housing crisis. I do have concerns that public housing rights are at risk in privatization and that stronger enforcement is needed to carry out Congress’ intent to uphold constitutional values.

I am also concerned that there are certain legal tools that can be used in privatization that can harm affordability and also restrict access to public housing.

I will first discuss the rights. Public housing has some very unique and important rights that are derived from the Constitution and especially from due process. These include the right to remain in one’s housing as long as you abide by the rules, the right to challenge harmful acts by your landlord against you without having to go to court—you can do this through an internal grievance process—and there is also the right to participate, so to know about and to give input about things that affect your housing, like, for example, privatization.

So these rights I do think are at risk, and not at all intentionally. To the contrary, Congress has actually mandated that these rights be preserved in privatized public housing.

But reports from the field are that in instances across the country these rights are being violated. So for instance, there are—no one is supposed to lose housing under the RAD program. But there are instances being reported of tenants being re-screened under the RAD program.

In addition, information-sharing is also minimal in many places. So people are finding it necessary to file local FOIA requests in order just to get information, basic information about what is happening under RAD, who the new owner is, are rents going up, who is going to be required to move and when.

So I think one of the main problems is that legal enforcement and monitoring is extremely weak for rights. And no one is checking on whether these rights are being preserved.

In addition, legal penalties are very challenging to exercise in the privatized context and so they have little teeth.
And there is no market-like system for weeding out poor performers for rights. Because low-income tenants don’t have any consumer power, don’t walk away when there is a poor performer.

Some ideas for better protecting rights might be an explicit legislative mandate for HUD to enforce these rights, more monitoring and transparency about how landlords perform, and Congress can also give tenants the legal power to sue in court for rights violations.

A second concern is that certain legal rules may lessen affordability, especially if operating subsidies are inadequate. So rents can be raised using certain legal waiver authority, and affordability restrictions are actually lightened considerably under RAD when a project performs poorly. So both of these things could jeopardize affordability, especially if funding is not enough to sustain a project.

A third concern is about who can access public housing. We have seen a rise in things like stricter screening for new tenants and stricter house rules which can be used to exclude people who may be more challenging to house. But these may be the people who are most in need of public housing.

So in sum, I respectfully encourage the consideration of legislative changes to preserve constitutional values, to preserve affordability, and to protect access to public housing by those in need.

Thank you.

[The prepared statement of Ms. Lee can be found on page 82 of the appendix]

Chairman Luetkemeyer. Thank you, Ms. Lee.

Mr. Gentry, you are recognized for 5 minutes.

STATEMENT OF RICHARD C. GENTRY, PRESIDENT AND CHIEF EXECUTIVE OFFICER, SAN DIEGO HOUSING COMMISSION

Mr. Gentry. Good morning, Mr. Chairman, and members of the subcommittee.

My name is Rick Gentry. I am the president and CEO of the San Diego Housing Commission. And thank you for asking me to participate in this panel this morning.

I am in my 8th year as the CEO in San Diego, but I am in my 44th year in this industry, having begun as a HUD intern in 1972, and having included stints as the CEO of agencies in Austin, Texas, and Richmond, Virginia.

My experience also includes 10 years in the private sector with the Local Initiatives Support Corporation, and a LISC subsidiary, the National Equity Fund in Chicago, which is the Nation’s largest syndicator of low-income housing tax credits. My position there was to head up the asset management of our inventory across the country.

I will also point out that I have done some extensive travel, visits and work in the U.K. beginning in 1994, and have spent some time in London, Liverpool, Manchester, Edinburgh, and most recently delivering a paper on the San Diego model at a national conference in Brighton, England in March of 2013.

So the mileage is there, and I appreciate being able to participate with you this morning.

My experience and observation is that there are a number of similarities, in thought at least, between the U.K. model and the
That similarity has much to do with the values represented in the long-term tradition, that came down through the Anglo-Saxon history from the U.K. to the U.S., of the importance of the freedom of the individual and making sure that the programs that are governmental reinforce individual opportunities in both countries. And I think, to a great extent, over the years that has been the case.

I also have pointed out in the paper that I delivered to this committee for this meeting that I think there are a number of differences between the two countries, particularly over the past 60 years or so, that should be taken into account in looking at similarities.

I would submit that following World War II, under the government of Clement Attlee, the U.K. basically diverged from its historical approach, and beginning in the 1980s began coming back to more of an individual approach to the way social housing services were delivered to the population.

And I will point out that in the 1980s, over 40 percent of the population in the U.K. lived in council housing, their version of public housing. In this country, never more than 1 percent of the population has ever lived in the formal public housing program. Now, you add another 3 percent or so who live in the current Section 8 Housing Choice Voucher program, another 2 to 3 percent who live under the low-income housing tax credit program, and another percentage or two under various other programs, you still get a much smaller percentage of the population in this country who have lived under formal, subsidized programs like this.

The United States, following World War II, used FHA insurance, a secondary mortgage market, namely Fannie Mae, the VA insurance program, and other methods to create a great home ownership network. And there were also other incentives that encouraged and developed a private sector rental industry in this country that is much, much smaller in the U.K.

And I would submit that the U.K.’s movement back to a more individualized, local product fits in with the values of both countries.

I will also point out that, as I noted in my paper, the nonprofit housing industry in this country does have some notably strong players. I pointed out in particular what is going on in San Francisco right now with help for that agency utilizing the private sector and nonprofit industry in the Bay Area.

However, I would also point out that in most parts of the country the public housing agencies are strong, operate good, effective programs, and are good delivery systems. And my contention would be that it is not the players of the game frequently that are as important as the rules of the game are. And if the rules are the same in the private sector and the public sector, the public sector can compete and do well. That is the case in San Diego.

I have pointed out in my paper a number of examples of the San Diego model. I am not going to try to go into those here today. It would be another probably 50 minutes rather than 5. But I will point out that I think that the keys are latitude and flexibility to make decisions on the local level.

And I will point out in closing a term that is in great use now, not only in the U.K., but in the European Union, and that is the
principle of subsidiarity. And basically what subsidiarity means is the decision should be made as close to the local situation as possible and not remote from just a centralized governmental point of view.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Gentry can be found on page 61 of the appendix.]

Chairman Luetkemeyer. Thank you, Mr. Gentry.

And Mr. Russ, you are recognized for 5 minutes.

STATEMENT OF GREGORY P. RUSS, EXECUTIVE DIRECTOR, CAMBRIDGE HOUSING AUTHORITY

Mr. Russ. Thank you, Mr. Chairman. And thanks to the subcommittee for inviting me to speak today.

My name is Gregory Russ. I am executive director of the Cambridge Housing Authority in Cambridge, Massachusetts. And my spoken comments this morning I am going to divide into two parts, a little bit of the technical geography of public housing in the United States and items that do impact on how we think about the system as a whole. And in the spirit of self-reflection, looking at some of the things that we might be able to do to make some fundamental changes there should that opportunity arise.

One thing I want to point out to begin with, having read the HPN report that was part of the committee materials, is there are many ideas in that report that we really feel are worth exploring. And I would suggest to the committee that our only concern from the housing authority side is, whatever ideas are tried be entity-neutral so that funding or other opportunities are crossing platforms and we are not relying necessarily on the type of tax entity that the land holder is.

In our case, we are a public agency and we are currently high-performing and entrepreneurial. We are doing a complete RAD portfolio conversion made possible, in large part, by another program, Moving to Work. That is 2,500 public housing units are being shifted off the public housing into the RAD demonstration.

We have raised about $240 million in our first phase at about a 16–to–1 leverage ratio of private equity contribution to public money. We are using the low-income housing tax credit program and have adapted that to our needs in Cambridge.

The reason we are doing this, and this is the first part of the geography, is that the public housing program—and it is no secret—is starved for capital. There is no strong means of capital investment in this country now other than the low-income housing tax credit.

In 2010, the need for capital was adequately documented in a study that was presented to HUD, which estimated somewhere between $26 billion to $30 billion in backlog need for public housing. That is an enormous amount of money. And we have a limited pool of tax credit equity available. And the competition for that is heating up, especially in markets where units are threatened and we need to preserve units. That is our only source of capital, perhaps aside from some local money.

Two other things are important to remember when we talk about reform that is fundamental to our system. The first of those is that
public housing authorities are State agencies; they are created by State Governments. We spend Federal money, but the enabling legislation belongs to the State of Massachusetts or the State of Ohio, or pick one. And there are significant powers invested in housing authorities in those State-enabling legislations. And if there is to be deeper reform, that will have to be considered by Congress as you go forward.

The second item I want to mention is that all public housing property is protected, in a sense, it is use-protected, by a document called the declaration of trust. This is attached to the land. And this protects the use, but also restricts the financing.

One of our recommendations is, looking at the RAD model it is possible to craft a strong and reasonably balanced use agreement and replace the declaration of trust that allows us to tap the assets’ equity, if you will, and liberate the asset while protecting the families that are there. This is precisely what we have done in Cambridge.

We are using the RAD model to release the declaration of trust. But we have embedded in our RAD program the lease, the grievance procedure, the resident protections, and the rent structures that are most familiar to public housing. And in fact, when we filed our RAD application we did not have a single resident or advocate objection to that and still do not.

And we think with care we could craft a use agreement that would release the capital potential in any public housing property.

There are a number of recommendations in the HPN report that I found really interesting and intriguing: expanding the capital magnet fund, which we would endorse, provided public housing authorities could receive access to it as well, and the creation of large-scale, voluntary transfers. We are doing a portfolio shift with our RAD. There are ways to also allow that to happen and still protect the underlying use of the property for low-income families.

There are a number of other comments in my written testimony that I have made to the committee, but I wanted to thank you for this opportunity to speak to you today and I look forward to a discussion on how we might advance public housing as a platform in this country as well.

Thank you.

[The prepared statement of Mr. Russ can be found on page 110 of the appendix.]

Chairman LUETKEMEYER. Thank you, Mr. Russ.

With that, we will begin the questioning. And I will recognize myself for 5 minutes.

Mr. Gentry, you had a statement in your written testimony that said, “I believe the United States traditional public housing program is no longer viable in its current form to continue serving the needs of low-income Americans. America’s traditional public housing program has been, since its inception, a top-down, one-size-fits-all, centralized, command and control program operated out of D.C. that is intended for implementation uniformly across the country. The program as structured is flawed and needs to be changed and a more efficient use of taxpayer dollars to serve the housing needs of low-income Americans.”
Can you give us some ideas on how you came up with that and what we can do to fix it?

Mr. GENTRY. I would be glad to. And it is a result of 44 years of observation of the program.

The public housing program is a one-size-fits-all program. And my belief, having worked in this program literally all across the country from Greensboro, North Carolina, to San Diego, California, is you cannot make one program work the same way in every locality, you probably cannot even from, say, Columbia to Kansas City in Missouri.

And the San Diego model, I think, is one that bears observation. We received approval from HUD in 2007 to convert our public housing to a Section 8 Housing Choice Voucher delivery system, from Section 9 of the Housing Act to Section 8.

We then promised HUD that if HUD were to approve that action, we would keep the properties, we would dispose of no properties at all, we would allow families to vote with their feet and choose to remain in our properties or to move out.

About half of the families over the past 9 years have moved out. We have replaced those families with other families below 80 percent of median income, elderly below 50 percent, and we have made sure that the rent was an affordable rent that would fit the marketplace.

We also utilized the equity in the ground in those properties to create another $95 million in debt that we have used to create an additional 810 units of housing.

So I think that what we have done in San Diego, a precursor to RAD, if you will, has worked very well based on the San Diego model. Would I implement it exactly the same way if I were back in Richmond, Virginia? Probably not, I would do something different, but I would do something that would fit the locality.

Chairman LUETKEMEYER. So basically what you are saying is, if we give you more flexibility, you can probably design programs to be able to help whatever locale you are in to be able to do a better job of addressing housing needs. Is that a fair statement?

Mr. GENTRY. Yes, sir. And I would also add the flexibility and accountability to make sure that the residents and the taxpayers' resources are properly utilized.

Chairman LUETKEMEYER. Very good.

Mr. Bledsoe, you were listening very intently whenever Ms. Lee was talking about tenants having some problems. I noticed in your testimony you were talking about the model that you were looking at in Britain with the sort of transitioning from the public sector or the private sector. There were boards that were created within the housing authorities to be able to put the tenants in charge of the building, so to speak, and that would seem to address a lot of her concerns. Is that kind of roughly what you were thinking?

Mr. BLEDSOE. Yes, Congressman. I think in the U.K. they will engage residents in making the decisions about what kind of changes are appropriate. And if there is a desire to change the management and the ownership, I wouldn't call it privatization because it is not putting it into for-profit entities that are driven more by profit, it is really focused on the public mission still. But if you can put it into more of a mixed entity, like the housing asso-
ciations, like some of our members really like San Francisco is doing, that decision is made by the residents.

In the U.S. in the RAD program, that is not really the case. So the residents aren’t making that call. The U.K. has done that and they have ensured that every resident who is in their unit, at the existing model, council housing, gets to stay in the new one.

Now, I think San Francisco has done some very interesting things there with its RAD demonstration. It is guaranteeing all the residents a right to come back and to stay in the homes that are going to be revitalized. It has done a very engaged tenant process to involve them in kind of the planning and the design.

And they have also used a portfolio financing model that I think reflects a lot of the approaches that we are arguing for. Now, three of our members are partners in San Francisco doing that RAD program.

So I think with some of the previous programs there are concerns about whether residents have been able to come back. I think the San Francisco model has sort of addressed that. But we would certainly argue for as strong a resident engagement and protection as possible in any of these programs.

Chairman Luetkemeyer. Very good, thank you.

My time has expired. With that, we go to the gentlelady from New York, Ms. Velazquez, for 5 minutes.

Ms. Velazquez. Thank you.

And I want to thank the ranking member for yielding.

Ms. Lee, in your testimony you indicate that privatization programs raise long-term affordability. How can RAD and other privatization programs be strengthened to ensure housing will remain accessible for those individuals and families who need them the most?

Ms. Lee. Thank you, Congresswoman, for the question.

So long-term affordability can certainly be strengthened by first of all just making sure that there is enough funding in these programs. I think some of the major pressure to raise rents and make things less affordable comes from insufficient funding.

And we see there are legal options, under the RAD program for example, that if a program is not doing well or out of compliance that affordability restrictions could actually be lifted or a significant number of them could be.

And I would like Mr. Russ to also comment on that question.

Ms. Lee. Thank you, Congresswoman, for the question.

So long-term affordability can certainly be strengthened by first of all just making sure that there is enough funding in these programs. I think some of the major pressure to raise rents and make things less affordable comes from insufficient funding.

And we see there are legal options, under the RAD program for example, that if a program is not doing well or out of compliance that affordability restrictions could actually be lifted or a significant number of them could be.

And so making sure there is funding and then making sure that some of those legal rules that would allow rents to rise and higher-income folks to be admitted into public housing, some of those rules could be tightened.

Ms. Velazquez. Mr. Russ?

Mr. Russ. Thank you, Congresswoman.

The first observation is that in the current version of RAD there are some pretty strong protections already baked in. One observation we would have is that the use restrictions, the use agreements run co-terminus with the housing assistance payments contract. This is what you are paying the subsidy for. And those contracts, in effect, compel the owner to renew.

So there is in effect a longer vision perhaps than the 15-year tax credit period or 20 years, whatever, that is in the current program.
In our program, we did two things, I think. We assured the residents that the system of policies that they are familiar with and their options through due process in our current lease were carried into the RAD units. So if you are a resident in a RAD unit you have a grievance procedure, that did not go away.

And I think the other thing is we spent a lot of time engaging the community at large and our residents on the capital deficits that we had at our properties. Once we explained what those looked like and how we had to raise the money, how we had to use the tax credits, we got folks used to the idea that in order to raise this much capital we do have to form a temporary partnership, not a permanent one with our tax credit investor.

Ms. Velázquez. So we don’t know, we don’t have any report as of yet of any of the demonstration projects that are in place today, right?

Mr. Russ. I can only tell you about ours.

Ms. Velázquez. Yes.

Mr. Russ. But I know that HUD is doing an evaluation of the program.

Ms. Velázquez. Okay.

Dr. Beider, while there are similarities, the experiences with developing public housing in the U.S. and the U.K. are different in significant ways.

In the U.K., as Mr. Bledsoe said, residents have been more actively engaged in the redevelopment process and in decisions about supportive services. What lessons can we in the United States learn about the U.K.’s resident engagement methods that might be applied here?

Mr. Beider. Thank you, Congresswoman. I think the U.K. housing sector and certainly the affordable housing sector and housing associations have had a long history of community engagement. And that has been part of the vision and purpose of social housing in the U.K. because it has been based on the welfare state.

One of the things that has been really, really successful in terms of the way that housing providers have engaged with tenants is not just in terms of community engagement and having tenants on the boards of housing associations, but the very active ways that housing associations have engaged with both local councils and the private sector to support social enterprises in the U.K., therefore creating jobs and employment opportunities, increasing people’s confidence and esteem in themselves as part of the staircase into better outcomes.

So I think creating social enterprises, engaging with trained providers to skill-up housing tenants, who after all 70 percent of housing association tenants until recently have been in receipt of some form of benefit, so they are low-income communities. And a housing association, because it has fixed assets, because it is embedded within a neighborhood, because it has access to private finance and also because it can reach out to other local stakeholders, has a big, convening role in that.

Ms. Velázquez. Thank you.

I yield back. Thank you.
Chairman LUETKEMEYER. The gentlelady's time has expired. The gentleman from New Mexico, Mr. Pearce, is recognized for 5 minutes.

Mr. PEARCE. Thank you, Mr. Chairman.

And with all due respect to our friends from the U.K., I would remind the chairman that the last time the British took this much interest in American housing in Washington they burned the place down in the War of 1812. So I would have us watch carefully.

But I really appreciate you being here, Dr. Beider.

My first question is in fact for you. So when I am looking at page two—

Chairman LUETKEMEYER. I remind him, this is a preemptive strike, try and make sure it doesn't happen again.

[laughter]

Mr. PEARCE. On page two, we have Ms. Lee saying in her testimony that the government oversight of tenants' rights has greatly diminished. But then also insufficient funding for privatized programs is a significant concern for U.K. providers.

That is sort of in contrast to your testimony in several places. You mentioned the access to private capital, and especially on page nine you are talking about being very successful in raising private finances to support social aims.

Would you address the concerns that were raised by Ms. Lee?

Mr. BEIDER. Thank you, Congressman. I think Ms. Lee's testimony is absolutely very interesting and there is a great deal of truth in it.

I think one of the points I was raising in my testimony is the way that housing associations as being not-for-profit organizations have been very, very successful in raising private investment. And that has to be set in the context of a reduced government subsidy for housing associations.

To be frank, housing associations have had to have recourse to private finance markets to do the job of building and managing housing stock. The most important thing, I think, for housing associations is that they are not-for-profit social businesses. So even though they run on very much business terms, they are not for profit, they are as much social as well as businesses.

And I think that is one of the protections that housing associations have in terms of veering too much into the private sector.

The other thing I would just finally add on the importance of the private sector is this. One of the big debates that is happening in the U.K. at the moment is, to what extent should housing associations continue to veer towards the private sector?

There have been some concerns raised by tenants as well as advocacy organizations that the balance is tilting too much to the private sector as opposed to the not-for-profit sector. The housing associations have or are regulated by the homes and communities agency to make sure that they do fulfill their aims.

Mr. PEARCE. Okay.

Dr. Popkin, you had raised concerns about the viability of the privatization. You have done probably as much study as anyone on the panel, and so I am wondering if you have looked at the privatization of military housing. That was something that we did here
in this country, some people say very successfully, and other people
don't have such high regard for it.

Have you conducted research on that project? They replaced
maybe 80 percent of the world's military housing, U.S. military
housing, in a very short period of time. Some of the people who are
living in them are in my district and they are very highly pleased
with it. But have you had a study of the real processes from a
backdoor view?

Ms. POPKIN. Thank you, Congressman. No, I have not, but I am
familiar with the research that was done on it. I don't think I am
expert enough to offer an opinion about it. I am not concerned that
we have private sector involvement. I think, as similar in the U.K.,
we need more funding for the system, as everybody is saying on the
panel.

I am concerned about making sure that we protect the housing
for the very lowest-income tenants and that the private sector tools
we have don't serve them well.

Mr. PEARCE. Okay, all right.

Mr. Russ, you have a lot of experience in kind of the transition.
Can you tell me sort of what rates of return that investors are look-
ing at in this market?

And the reason I am asking that is because there is a lot of cash
out there, a lot of money sits idle and it desperately looks for 1 and
2 and 3 percent rate of return. So I am wondering, as we are talk-
ing about this access to capital, what sorts of rates of return do
your privatization projects bring?

Mr. RUSS. Congressman, let me frame it a little bit differently,
if I could, because the bargain we have struck in order to make in-
vestments in low-income housing, we are asking a private investor
to put equity into these real estate transactions. In exchange, they
get a tax credit on the back end of that they can then use to reduce
their tax bill.

Mr. PEARCE. I understand that, but—

Mr. RUSS. So in their equity contribution, their return is the
credit.

Mr. PEARCE. And what does that draw them? In other words,
what is—

Mr. RUSS. We are getting really good pricing on the credit be-
cause companies that are investing in this that are paying taxes,
our partner in the tax credit side is Wells Fargo. They are the
third-largest taxpayer in the country. So they told us they would
buy as many credits as they could.

Mr. PEARCE. Yes, I am just wondering what sort of rate of re-
turn—

Mr. RUSS. I don't know their rate of return.

Mr. PEARCE. Yes, it is—

Mr. RUSS. Yes, but the second part of it is we have lenders for
both construction and permanent debt and they are getting stand-
ard loan rates for that.

Mr. PEARCE. Okay.

Thank you, Mr. Chairman. I see my time has expired.

Chairman LUETKEMEYER. The gentleman's time has expired.
With that, we will go to the gentlelady from California, Ms. Waters, the ranking member of the Full Financial Services Committee, for 5 minutes.

Ms. WATERS. Thank you very much, Mr. Chairman, for holding this meeting.

This is a very needed discussion. And I am very grateful for the panel that is participating here today. And I am very grateful for those who are helping us, who are here to help us understand what is happening in the U.K. where access to public housing is an entitlement.

Many of us have grappled with this issue for many years now. I have lived through the HOPE VI program that was so touted. And for those of you who remember Jake Kemp, this was his number-one issue.

But let me just tell you and tell our panel, even though you may have said it already, that HOPE VI demolished 98,000 units and brought back only 48,348. I have asked my staff repeatedly, what happened to those people? Where did they go? We don’t have that information, but we know that homelessness has steadily increased in this country and in places like Atlanta where I think we had 6,418 original public housing units and now I think we have about 2,256 public housing households. So I think these numbers are correct.

But I guess what I am saying is this: Public housing is absolutely needed in this country, as it is in the U.K. and other places.

When we talk about privatization, whether we are talking about HOPE VI or RAD or other ways by which privatization takes place, privatization is there for one reason. People invest money because they want to make money, they want to make a profit from privatization.

When we talk about public housing, we know that along with the actual, physical units you must have social services to go along with it. And that cost is what the private sector does not want to assume. Because when you provide the social services, it reduces the amount of profit that the private entities will be able to achieve.

And so entitlement is extremely important. The need is extraordinary. In Los Angeles County, for example, last year, at least 2015, homelessness had increased by 20 percent and in Los Angeles by 12 percent. I don’t know what the recent figures are. But the complaints throughout our caucus are just astronomical.

And so I believe that governments have to realize that this is a real need and they are either going to assume the need and responsibility for public housing or they are not going to do it.

And I just want to tell you, the waiting list for Section 8, I believe right here in this area in Washington, D.C., is a decade long. It is a 10-year waiting list here and all over the country.

Now, I have heard a lot about privatization, I guess in the U.K., that the residents have the opportunity to participate and to influence and make decisions. That is not true here. That is not true at all.

As a matter of fact, in L.A. County, they want not one resident to serve on the County Board of Supervisors because they control public housing. And they come to the Congress of the United States
to deny that one resident to sit with the County Board of Supervisors, and the alternative is an advisory board with no power.

This is unbelievable. In many other places, they patronize the residents a bit, many of them handpicked by the mayor, the politicians, what have you, and they will give them a trip to Washington, D.C., and they put them up in a hotel and they treat them nice and they take them home and they don’t give them a chance to vote on any policy at all.

So this is a serious issue. And we have been dealing with it for many, many years.

And I am pleased to hear and I am just delighted to have this hearing today because this is going to shed more light on what we need to do in this country. And we either have to step up to the plate or not. And for those people who think you can get it on the cheap, or that somehow these waiting lists are going to evaporate, this hearing helps us to understand that is not going to happen.

The need is there. And until we recognize this and we are prepared to deal with it, it is going to get worse and homelessness is going to continue to increase.

I yield back the balance of my time.

Chairman LUETKEMEYER. The gentlelady’s time has expired.

The gentleman from Pennsylvania, Mr. Rothfus, is recognized for 5 minutes.

Mr. ROTHFUS. Thank you, Mr. Chairman.

Mr. Gentry, I want to touch again on your top-down, one-size-fits-all, centralized command and control criticism of our public housing programs.

As you may know, I recently joined Majority Leader McCarthy and several members of this committee in introducing the Moving to Work Reform and Expansion Act. This bill would expand Moving to Work by allowing any public housing agency in good standing to take part in the program. It also includes crucial reforms to improve accountability and facilitate better analysis.

Your testimony credits Moving to Work with providing SDHC with the flexibility necessary to implement transformative programs that have improved outcomes.

Do you support the idea of expanding Moving to Work?

Mr. GENTRY. The short answer is yes, sir. The longer answer is I will support that bill with some technical changes to it.

Mr. ROTHFUS. Which outcomes do you consider when evaluating the effectiveness of Moving to Work initiatives?

Mr. GENTRY. Serving the needs of the community. I will give you a good example that will tie back in with Ms. Waters’ comments a few minutes ago as well.

San Diego has in whole numbers the fourth-worst homeless problem in the country, behind New York City, Los Angeles and Seattle. And that is in whole numbers, not proportionate to the population. And what we have been able to do with our Moving to Work program is to exercise a great deal of local flexibility with local discretion to address the needs of the homeless greater than we would have absent Moving to Work authority.

So my belief is that Moving to Work should be available eventually to every local housing agency in the country that is not in trou-
bled status, that it gives the kind of flexibility where local decisions can be made.

Mr. ROTHFUS. One of the key themes of Moving to Work is increased self-sufficiency. How do you measure self-sufficiency? And how successful have you been in achieving it?

Mr. GENTRY. As you note, in my paper I point out that we established an organization called the Achievement Academy within the San Diego Housing Commission, and we have utilized the Achievement Academy to encourage work, work-related habits, acculturation if you will, to increase greater degree of self-sufficiency among our residents.

We believe that, as in all real estate operators, you have amenities and the amenity that we try to offer our population that is not elderly or disabled, of course, is the ability to move into the economic mainstream.

We have been targeting not only residents, but the adult children of residents and also the homeless population that we serve as well.

Mr. ROTHFUS. Thank you.

Mr. Bledsoe, my district in western Pennsylvania is home to a number of historically manufacturing and mining communities, like Johnstown and Aliquippa, that continue to face significant economic challenges, not unlike those of the north of England and Scotland.

One of my major priorities as we look at housing reform is to work with communities like these and provide them with the policy tools necessary for self-empowerment and a return to growth.

Considering lessons gained from the U.K.’s experience, which policies are especially effective in addressing housing affordability in communities where the industrial base has contracted?

Mr. BLEDSOE. Thank you, Congressman. We have a very active organization in your district, Action Housing, based in Pittsburgh. And actually, the CEO of that is our board chair. So we are very familiar with that market and the challenges. And the distressed communities still face a lot of economic distress.

I think there are tools. A lot of the tools that we have built in this country are really designed for stronger markets. Weaker markets honestly need more equity, more patient capital.

One of the priorities of our organization is to develop strategies that work in more depressed markets. We are doing work in Cleveland, we are doing work in Detroit, places that face different challenges.

One of the big issues obviously that has faced our country has been foreclosure. And you know, one of the recommendations we have in our report is around home ownership strategies. We think there should be a greater reliance on organizations that have more of a public mission, some of the nonprofits in our network who have done a lot of work to address the foreclosure crisis, instead of relying as much on Wall Street and firms that are looking to flip properties, rather than to provide long-term, stable housing opportunities for families.

The foreclosure crisis devastated a lot of communities. It is still with us. Unfortunately, I think there is a backlog now of properties
that have been acquired by institutions that are now going to come back onto the streets with some of the same challenges.

So I know there has been real concern on this committee about how to deal with some of those properties and some of the communities devastated by foreclosure. I think there are some lessons around the models that we have articulated in relying on stronger, mission-driven organizations to acquire and to do kind of long-term support for families living in those homes to either preserve their homes or to kind of create opportunities for lease purchase.

The British actually have some very interesting models around shared ownership and strategies that are really designed for weaker markets. So I think there are some things actually we can learn from this experience.

But in particular, I think we have to look at different delivery systems to address this than we have been relying on more recently.

Mr. Rothfus. I see my time has expired. I yield back, thank you.

Chairman Luetkemeyer. The gentleman's time has expired.

The ranking member of the subcommittee, the gentleman from Missouri, Mr. Cleaver, is recognized for 5 minutes.

Mr. Cleaver. Thank you, Mr. Chairman.

The HOPE VI project, which the ranking member talked about it, is very interesting. I was a mayor when we did the HOPE VI project, the first actual program HOPE VI was in Kansas City. The first pilot project I think was in Atlanta.

But Mr. Bledsoe, it was based, in many ways, on a public housing project in Columbia Point. I am assuming that is also part of the Boston public housing. So, the way HOPE VI was supposed to work, we would tear down the worst housing and then replace it with mixed-income housing.

I am not sure that—well, we tore down Wayne Miner, which was one of the notorious first housing projects in the country. It is not dissimilar to Pruitt-Igoe in Mr. Clay's district.

And so the same issue that the ranking member raised is one that still sits in Kansas City as a negative toward the HOPE VI, which was, where are the people? Because if you tear down Wayne Miner, you build these very nice—these are, if any of you have seen the HOPE VI project in Kansas City, absolutely beautiful. But then many of the residents of Wayne Miner never moved into this mixed-income area.

I am curious about Columbia Point and where is it today?

Mr. Bledsoe. Columbia Point is now Harbor Point. I drove by that on my bicycle. There is a beautiful little bike trail that goes all around the harbor there and I drove by the Harbor Point probably about a month ago. And it is a beautiful community. So as a mixed-income development it has worked and it has worked in a way that I think created a model for how mixed income can be a better, more sustainable model for residents and can create opportunities both for the community as well as the residents.

I do agree with you, however, that in a lot of these developments not all of the residents who lived there initially are now enjoying that splendor. And so I think that is a challenge for us.

The communities that have been built are beautiful, they work for everybody who lives there, and I think they have proven that
mixed income, a range of incomes can live in the same community and that kind of economic diversity is a strength, not a weakness. But there are folks who used to live in those homes who haven’t benefited. And I think that is a real challenge we face.

And I agree with you, Congresswoman Waters, that is a challenge in the HOPE VI programs.

I think that is something that, again, the lessons can be learned from the British model because they have not done that. And I think in some of the newer RAD examples, I believe in San Francisco, there is much more of a commitment to making sure that everybody who lives there now gets an opportunity to remain and to be able to take advantage of sort of the new community that is built.

I think that is fundamentally important. I think it is a lesson that we have learned the hard way. And we have to take stock of it.

It doesn’t, to me, argue that we should not do mixed-income housing because I think that is a very powerful model and it is a strong model.

The one other thing I would say about Harbor Point and going back to my friends at the end of the podium here who are from the housing authority world, there are a lot of great operators. There are for-profit operators that do a wonderful job and that embody a lot of the same principles that are sort of nonprofit, sort of social enterprise nonprofits incorporate, and I believe actually that San Diego and Cambridge really represent the same ethos that we have.

So there is a bit of a convergence going on in the system between entrepreneurial housing authorities, like San Diego and Cambridge, and the organizations in our network. I think we are going to learn from that.

I don’t think these are two different worlds. I think we are converging and moving towards a model that can work better. They are using nonprofits in the same way we are. We want to use some of the models that they have demonstrated.

I do, though, believe that mixed income is a critical component. It works better. We have to figure out a way to make that work for a community, but to make sure that the residents who are living in the communities that are revitalized get an opportunity to move back or get a choice to live somewhere else that might be better for them, but it is their choice, it is not sort of the developer who then has to sort of re-certify in the way that Ms. Lee sort of has raised concerns about.

Mr. CLEAVER. I have another question, but maybe I will get a chance with Ms. Lee before the hearing is finished.

Thank you, Mr. Chairman.

Chairman LUETKEMEYER. The gentleman’s time has expired.

With that, we go to the gentleman from Texas, Mr. Williams, for 5 minutes.

Mr. WILLIAMS. Thank you, Mr. Chairman.

And thanks to all of you for being here today. And I want to be on record that I believe in the private sector.

I think it is fair to say that America’s affordable housing system is broken. In reading some of the project reports that we received
before the hearing, the number of Americans who use or are in need of public housing are staggering.

I think we can all agree that the status quo is no longer acceptable and we should strive to want to offer a better product to those Americans who most need it.

So my first question would be to you, Mr. Gentry. You mentioned Austin, Texas, and Austin is in my district, by the way.

The United Kingdom has made a conscious effort to fund programs that transfer ownership and management of public housing away from the government entities. Here in the U.S., for example, we have 3,000 public housing agencies that manage some 1 million public housing units.

So my first question is, do you believe that the private sector could fulfill the role of public housing authorities in serving low- and very-low-income families?

Mr. GENTRY. In some circumstances, yes, sir; in some, not. I think it would depend on the locality, the ability of the local agency to perform and what other options are available.

Mr. WILLIAMS. Okay. And in talking to some of our local housing authorities in Texas, I know programs exist that encourage working families or individuals to eventually graduate or leave public or assisted housing programs. Do you believe this is a model that works well?

Mr. GENTRY. Yes, sir, I do. I will point out, too, that there is one group of individuals who typically are not involved in this discussion, and that is the folks on the waiting list.

I will point out that in San Diego we have right now in our largest program about 15,500 Housing Choice Vouchers, and we have 60,000 families on the waiting list for that. And the wait for that is close to 10 years to get in, as Ms. Waters pointed out a while ago.

And I think one of the best ways to create a unit of affordable housing is to help a family graduate and move out of it, which is the reason we try to promote an individual family's economic self-sufficiency through our Achievement Academy. And I think we have had a fair amount of success in accomplishing that.

Mr. WILLIAMS. Good. What tools do we need to give our local housing authorities that will allow them to run programs that encourage residents to eventually graduate from public and assisted housing? Because I believe that giving individual programs flexibility and allowing them to innovate is probably a good model.

Mr. GENTRY. I think the funding that has been available in the past for a program called the Family Self-Sufficiency Program, money that comes from HUD, has been very useful to us in accomplishing that.

And I also think that in San Diego the flexibility we have had because of our Moving to Work status has allowed us to use relatively more of our funding for training, for acculturation, for job training, for job fairs to help people move up and out.

And I think it is that sort of attitude, if you will, that we need to promote. And that is that in some cases families may be in the housing for some time, and others we help the family move on, up and out as quickly as they are able to.

Mr. WILLIAMS. Thank you.
Mr. Russ, you talked about the Moving to Work demonstration program that gives participating public housing authorities the flexibility to design and test innovative strategies for providing and administering housing assistance in their communities.

How successful have Moving to Work agencies been in attracting private sector funding to their projects?

Mr. R USS. I think on balance, those of us who are engaged in preservation or revitalization have been very successful in attracting private capital.

I think I mentioned earlier that our leverage rate is about $16 private to $1 public thanks to the tax credit program. And I believe there are probably a number of MTW agencies that, internal to the way MTW works, help them negotiate financial arrangements that are beneficial in the sense that they can bring more money to their units.

The flexibility that program has across your different budget programs, if I will, allows a housing authority to present itself in a different way to a financial institution or other potential investor if you are seeking to attract private capital.

Mr. WILLIAMS. Real quick, what lessons have been learned from Moving to Work efforts to attract more private sector funding in public housing that could be replicated more broadly?

Mr. R USS. I think being able to demonstrate that you have an adequate bottom line and that both in terms of the operating budget that you have, and we often use MTW funds to supplement some of our weaker sites.

But I think the other thing that the private investors are looking for is, do you have reserves? And I know that is not a good word in a lot of circles here. But properties need a reserve commitment and MTW properties or housing authorities are better able to do that, I think.

Mr. WILLIAMS. Thank you for your testimony.
I yield back.

Chairman LUETKEMEYER. The gentleman’s time has expired.

The gentleman from Missouri, Mr. Clay, is recognized for 5 minutes.

Mr. CLAY. Thank you, Mr. Chairman.
And I thank you and the ranking member for holding this hearing.

Let me ask, maybe Dr. Popkin or someone else on the panel, what is the average length of stay of public housing tenants or families, what is the average length?

Ms. POPKIN. Nationally, I think it is 2 to 4 years.

Mr. CLAY. Two to 4 years. And then they usually transition to—

Ms. POPKIN. People go on and off. It is harder in tighter markets, and where the housing is more distressed you get tenants who have been there for 10 or 20 years or more. So it varies a lot. But nationally, the figure is 2 to 4 years. I think it is shorter on the voucher program than it is in public housing.

Mr. CLAY. I see.

And Mr. Bledsoe, one of the recommendations of the Housing Partnership Network report is to expand the Family Self-Sufficiency Program which helps provide families with the resources
they need to build wealth, find employment, pursue education, and more.

It seems that despite the program's proven success, it has remained limited in scope due to a lack of funding. Would you agree?

Mr. BLEDSOE. I would. This responds to Mr. Williams' question as well, which I think there has been some expansion of the Family Self-Sufficiency Program and project-based rental assistance. It has been done on an annual basis by the Appropriations Committee.

We strongly support making that permanent and would hope this committee would consider expanding and making permanent the Family Self-Sufficiency Program before project-based rental assistance.

There are two components of that. One is the service support and the service coordinators. The other is the incentive that it creates for family to save and the wealth that they can build as they are building skills, building education.

Our proposal has been that we will figure out as charitable organizations how to raise the money for the service coordinators. What we want is the mechanism that creates the incentive for residents who live in project-based assistance, which will be a lot of the RAD programs, as properties convert into project-based rental assistance, that we want those incentives that would encourage individuals to work, encourage them to get training and skills.

We think that the incentive there and the cash that can be saved has really proven a very, very strong incentive. And families who come out of that program with $6,000 or $7,000 of wealth building.

So that started in public housing, it has been expanded, but we think that it is now time to make it permanent on the project-based side, not have it subject to an annual appropriation as it has been in the last 2 years.

But we are willing as nonprofits to try to raise the support that the families need for the service coordinators. But we just need the mechanism so that as your income goes up, there is not a discouragement to work and a discouragement to get the training.

Mr. CLAY. Thank you for that.

Mr. GENTRY. Absolutely, it certainly does. And I will give you a couple of examples. We have utilized some efficiencies in our Moving to Work program to create capital that we have invested in properties, two of them. One is the old Hotel Churchill, which is a 101-year-old property that we are completing construction on next month which will house 72 homeless veterans. I would invite you to come to the dedication ceremony which will be sometime in early August.

Mr. CLAY. San Diego is a wonderful city to visit.

[laughter]

Mr. GENTRY. And another property—Greg, you can come, too—we were able to acquire is a 130-unit complex for the elderly at a price of about $15 million for 130 units. We have set aside 20 percent of those units for elderly homeless folks.

Ms. WATERS. Will the gentleman yield?

Mr. CLAY. Yes, I yield.
Ms. Waters. Thank you very much. In San Diego, you have a population of 1.356 million. You privatized 1,366 public housing units, and in all of San Diego you have 189 units left.

Mr. Gentry. That is accurate with one correction. We privatized nothing. Those 1,366 units that were formerly subsidized under Section 9 of the housing act, the housing commission continues to own, still have vouchers in them.

The other families have made their choice to live elsewhere with the vouchers. We have actually created more affordable housing by changing our subsidy system than we had before. Nothing got privatized, respectfully.

Mr. Clay. I yield back.

Chairman Luetkemeyer. The gentleman’s time has expired.

With that, we go to the gentleman from Kentucky, Mr. Barr, for 5 minutes.

Mr. Barr. Thank you, Mr. Chairman.

And thanks to our witnesses for your testimony. I appreciate hearing about the potential opportunities for studying the model for affordable housing in the United Kingdom and seeing whether or not a transfer away from government-owned public housing to a model that invites more private capital could actually expand access to affordable housing opportunities for many low-income and poor Americans.

We know that what we have been doing in the past 50 years has failed. Because over the last 50 years, HUD has spent over, gosh, $1.6 trillion plus, Congress has appropriated over $1.6 trillion to support public funding housing programs, and yet we still hear from both sides of the aisle about the waiting lists for Section 8 vouchers within our communities.

We know the statistics of 46 million Americans who are struggling in poverty today without access to the best housing opportunities. And so we know that throwing money at this problem, from the taxpayer, has not been a policy that has resulted in optimal outcomes.

Let me just anybody on the panel who might know the answer to this question, what is the backlog of unfunded capital needs, maintenance, repairs, rehabilitation that is needed for all public housing in the United States today?

Mr. Russ?

Mr. Russ. In 2010, HUD had a private contractor conduct a study that sampled, I believe, close to a million units. And their estimate in 2010 was that number was around $26 billion.

Mr. Barr. Right. So $26 billion of unfunded liabilities within existing public housing stock in the United States. What is the appetite within the private sector for and what is the capacity within the private sector to address that existing shortfall?

Mr. Russ. Let us think about what the vehicle is. The vehicle is the tax credit program. That is it. You have a modest amount of capital funding that the Congress appropriates each year, but that number is just completely inadequate for the need that we have described.

So that number, the $26 billion or $30 billion it might be now, that is constrained by the amount of tax credits that any public housing entity could obtain to preserve its housing.
And we are using tax credits extensively in Cambridge and we have managed to raise a good bit of money with it. But I still have half to do. So that pool is really the single-largest pool of equity investment for these kinds of units that we have.

Mr. BARR. So to Mr. Bledsoe and Mr. Beider, in addition to maybe expanding, updating the low-income housing tax credit, explain a little bit more, amplify your testimony as to how a more mission-driven, non-profit, social enterprise organization model really built on the voluntary transfer-type programs that we saw in the United Kingdom could supplement the invitation of private capital back into the affordable housing space?

Mr. BLEDSOE. It is an enormous challenge. And I think Mr. Russ is correct that the low-income housing tax credit as the exclusive vehicle for this is going to come up woefully short. There is not enough tax credit to do the work that we want to do without addressing the public housing stock. And this is a really priority need, so there is a shortage, there is a shortfall.

One of the examples I would give is I mentioned that we have created a real estate investment trust, or REIT. It is the first REIT that is actually owned by nonprofits, a social purpose REIT.

We have now raised $140 million of equity from the private sector. There was a question of what kind of returns should be given. We are providing preferred equity opportunities to investors and we are giving them a 4½ percent preferred return. So that is new capital that has come into the system.

They are investing in it honestly because of the capacity of our organizations.

Mr. BARR. And my time is expiring, so if I could just quickly rotate to Mr. Gentry.

What would be the impact on public housing authorities to have to compete for allocations of Section 8 or public housing dollars with private, not-for-profit, faith-based or mission-driven organizations?

Mr. GENTRY. I think the key is the economic driver. As Ms. Waters pointed out a while ago, in the U.K. there is a housing benefit which is an entitlement. And you take money, you put it with need, that turns the need into demand and the marketplace meets it.

I think the issue is that the public sector has been starved for money and has had rules and regulations that have added more duties onto it.

I think that with the rules being the same in both sides, you see an equivalence of ability.

Mr. BARR. My time has expired. But I think the idea of competition will help both the public housing and authorities and these social entrepreneurship opportunities as well to provide affordable housing.

Thanks for your testimony, and I yield back.

Chairman LUECKEMEYER. The gentleman’s time has expired.

The gentleman from Texas, Mr. Green, is recognized for 5 minutes.

Mr. GREEN. Thank you, Mr. Chairman.

I thank the ranking member as well.
And I would like to thank Mr. Russ for your latest commentary. I haven’t heard all of your message today. I have been attending to other things. I had a floor message to give.

But I thank you for what you said about the underfunding of public housing because this gets to the heart of the issue, the lack of a commitment from Congress.

I literally am very reluctant to say that the system is in need of repair, that it is in a broken condition, because my fear is that the cure may be worse than the condition. My fear is that what we may do as a result of this hearing will ultimately cause us to find less public housing available than what we have today because of the lack of commitment.

I was with the ranking member when we went to Louisiana after the hurricane. And I remember her hue and cry was a constant one. It was, will there be a one-for-one replacement of units as they are demolished and as better units are put on the market? Will there be a one-for-one replacement? That has always been the issue.

And then the issue also becomes, why don’t we track those who don’t get back into these new facilities? Why don’t we track them? Why don’t we know what happened to them?

We can track a person across the globe without that person knowing it. We were able to find Osama bin Laden without him knowing it, without the Pakistani government knowing it. We can track people if we want to, the technology is there, the methodology is available to us. We choose not to track because then we would find out the truth. And the truth is something we don’t want to face, the lack of commitment to public housing.

If we had the same commitment to public housing that we have to carried interest, to protecting carried interest, I assure you we wouldn’t be having this hearing.

If we had the same commitment to public housing that we have to the yield spread premium, or had to it, we had to eliminate it in Dodd-Frank, but if we had the same commitment, we wouldn’t be having this hearing.

If we had the same commitment that we have to protecting those who invest my money when I am a pensioner and allow the investor to decide that he will invest my money in something that costs more when a similar product is available for less, no fiduciary rule, if we had the same commitment to this public housing as we have to elimination of the fiduciary rule, we wouldn’t be having this hearing.

There is a lack of commitment. And it doesn’t matter how great the plan is. If you are not committed to the plan, the plan becomes another plan that did not work.

There are countries with greater constitutions than the United States. Ours is a great Constitution. But on paper there are other countries that have constitutions that are greater. But they are not committed to their constitution. This is the greatness of the American Constitution. The people are committed to our Constitution.

And until we on this committee become committed, all we will do is find clever ways to rearrange the chairs on the deck of the
sinking Titanic, find clever ways to demolish, eliminate, and improve neighborhoods, but in the process put people into the streets.

The greatness of this country will never be measured by how we treat people who live in the suites of life. The greatness of any country is measured by how you treat people who live in the streets of life. How do you treat people who are homeless, not how you treat those who live in the penthouses, who want all the breaks, not how you work hard to make sure they continue to get all of the advantages in life.

There are people who are suffering and we choose to spend our time making sure billionaires have better opportunities.

That is the flaw and the fallacy in all of this. And until we decide we are going to commit ourselves to people who don't necessarily vote and who don't make big campaign contributions, all of this will continue to be an exercise in futility.

But I am going to be a part of the exercise and I am going to fight for those people who are homeless and locked out and left out and left behind.

I yield back.

Chairman LUETKEMEYER. The gentleman's time has expired.

The gentleman from California, Mr. Royce, is recognized for 5 minutes.

Mr. ROYCE. Thank you very much, Mr. Chairman. I appreciate that.

And I thank the witnesses for being with us today.

The success of the affordable housing program should be judged, I think, on outcomes and how it is helping Americans get back on their feet, not necessarily by the amount of taxpayer dollars spent.

HUD has a program, Moving to Work. It is a pilot program, and I think it fits the bill of a success in this regard.

And in my district, the housing authority of the County of San Bernardino oversaw an annual 24.6 percent reduction of unemployed household heads and a 52.4 percent average income jump for those participating in the MTW program there.

So Mr. Gentry, the difficulties facing those seeking affordable housing in southern California—what has the San Diego housing commission's track record with MTW been? And how does localized control of funding allocation, as is more commonplace in the United Kingdom, contribute to efficiency?

Mr. GENTRY. I think the Moving to Work program has been essential to what San Diego's success has been. As I indicated a few minutes ago, we have been able to utilize savings from efficiencies in the Moving to Work program to better address homeless services. We have been able to focus on our families to increase the level and degree and type of work the families do.

It is Moving to Work. One of our successes is getting more families to work. It has been absolutely essential.

It is also the public housing transformation that we have done has helped, as well. Because I think that part of what we need to do is to make sure that our residents, as much as possible, have the same choices in life as those who are not residents of public housing or in a Section 8 program, and that is live where they want to live and work where they want to work and associate with whom they want to associate.
So we think that our program has been very useful in helping people increase their choices and to increase their economic station in life as well.

Mr. ROYCE. Thank you.

And I will go to Mr. Russ, too. Because Mr. Russ, you testified to both the success of the Moving to Work program, but also how, and I will quote here, “The current public housing system, including HUD itself, rationalizes structure and process over social outcomes.”

Is the reluctance of HUD to expand the Moving to Work program an example of this philosophy?

Mr. RUSSE. I guess I will start by saying I think that this is a really good program and I have a bias towards MTW since we are an MTW agency. And I would say there are a couple of factors at work.

The first is, when you receive an MTW designation, the relationship you have with the department is fundamentally altered. You have an agreement and that agreement has value and meaning in the sense of a contract. And in that relationship, there is more of a peer relationship with the department than not. And frankly, that doesn’t always sit well in terms of how the department’s rules and regulations and many of those things are promulgated.

And at times, in my own view, there is a lack of understanding of the MTW agreement itself. It is a very powerful document.

Mr. ROYCE. I think it is a win-win.

Mr. RUSSE. I would agree with you. But the reluctance is that you have this fear that somehow by giving a locality this designation—

Mr. ROYCE. Yes.

Mr. RUSSE. —it would turn in the wrong direction.

Mr. ROYCE. It is decentralized.

Mr. RUSSE. Yes.

Mr. ROYCE. And there might be some concern of the decentralization. It is, of course, flexible. But I think at the end of the day it is time to advance this from a pilot program to a more expansive.

We have had 20 years of demonstrations, but we have communities obviously that could really utilize the program.

I have lent my support to H.R. 5137, which is the Majority Leader Kevin McCarthy’s bill, the Moving to Work Reform and Expansion Act. And I would hope that the agency itself could get behind this concept and we would have a bipartisan support for it for the reasons that I cited earlier. The percentages that I have seen on this indicate it is very, very effective.

But I thank the witnesses very much.

And Mr. Chairman, thank you for holding the hearing.

Chairman LUETKEMEYER. I thank the gentleman from California. The gentleman from Michigan, Mr. Kildee, is recognized for 5 minutes.

Mr. KILDEE. Thank you, Mr. Chairman. I thank you, I thank the ranking member for holding this hearing, and I thank the witnesses for your attendance.

And I wonder if I could perhaps start with Mr. Bledsoe. I would like to pose a couple of questions that maybe you would all comment on.
But in your testimony, you refer to some of HPN’s recommendations and particularly around the Family Self-Sufficiency Program. The reason I ask that, and I would like you to couch this, perhaps any of you who would like to comment, in the context of weak markets.

I come from Flint, Michigan, but I am not going to go too far into describing Flint. I think the story sort of tells itself.

The concern that I have and what I would like you to address in that context is that a lot of the discussion when it comes to housing deals with housing in its form as a commodity or on a transactional basis, trying to figure out how to make the transactions work better, where a subsidy should go, what form it should take, et cetera, et cetera.

The context, I think, is very often lost. The context in the sense that the individuals accessing housing need more than housing in order to become successful, the self-sufficiency efforts, I think, are woefully inadequate in order to deal with it from a family perspective.

And of course, the larger context of community is often lost. Something that looks like it can work in a transactional basis might not work for the family. And when we see especially in distressed communities, and I am thinking of the north of England where you have had significant population loss, or places like my hometown, or Detroit, where frankly, a one-for-one replacement on demolition doesn’t make any sense at all because we are building in an oversupplied market.

If you could comment on the lack of support for holistic community development efforts so that the context around whatever form publicly supported housing takes is more successful and the need for more specific support for families.

And if we could start with Mr. Bledsoe, but I would open it up to others, particularly Mr. Beider, who might want to comment in terms of the distressed communities particularly in the north of England that have had population loss.

Mr. Bledsoe. Thank you very much, Mr. Kildee. And we have admired your work prior to Congress, your work in Congress as well, but in leading the Land Bank. We are very familiar with the challenges in Flint.

I mentioned earlier that we have now launched a nonprofit development company in Detroit called Develop Detroit because that is a market that has a real need for redevelopment, but organizations that have grown up in other parts of the country that are like our members never really thrived in Detroit. And we are taking some of the models that exist in other places and working with the city to build a nonprofit development company there that can address some of the unique challenges.

I say unique, but they are not. The scale in Detroit is unique, but the challenges in weak markets are similar and they are very different than strong markets.

I think one of the lessons we have certainly learned working with groups in St. Louis and Cleveland and markets, parts of Chicago, Detroit, is that housing by itself is not the answer. Housing in those markets is important, but you need a comprehensive ap-
proach that deals with the schools, that deals with safety, that
deals with health and education, deals with jobs.
So I think in weaker-market communities, you need a com-
prehensive approach. If you are in San Francisco, there is just an
acute affordable housing shortage and you can kind of focus on
that.
Now, they have school challenges, they have other challenges, I
am not saying they don’t but you can think of it a little bit more
as a transaction.
Though I think fundamentally, housing is a platform that helps
families succeed and it is a way to connect them into community
and give them access to health and education, jobs. But that is par-
ticularly the case in communities like Flint, and St. Louis, places
that—it is a comprehensive problem.
So I think family self-sufficiency is just one way of thinking
about not just the housing itself, but the people who live there and
how you can connect them into other services and opportunities
kind of in the neighborhood.
You need to be addressing the school challenges, you need to be
addressing the whole comprehensive needs for it. So I think you
are spot on. It is a different problem. It is something that is appar-
et everywhere, but it is just striking in a community like Flint,
that you can’t just be thinking about doing a housing transaction
and you think that is going to solve it.
Housing, I think, there still is a foundation there, but you need
to be thinking about ways to connect that family into other sup-
ports in that community. And that is why I think things like family
self-sufficiency can be so important.
Mr. KILDEE. Thank you.
Thank you, I see my time may have expired. So thank you, Mr.
Chairman.
Chairman LUETKEMEYER. I thank the gentleman from Michigan.
The gentleman from New Jersey, Mr. Garrett, is recognized for
5 minutes.
Mr. GARRETT. Thank you, Mr. Chairman. I may not use the en-
tire 5 minutes.
Let me begin by thanking the chairman for holding this hearing,
for this discussion that we have had, and I know you are one of
the most knowledgeable guys here on this topic and I look forward
to your legislation proposals coming out of this.
I think, Mr. Bledsoe, your point is where I was just going to tee
off on. What we can do to address the issue of housing is funda-
mental to the issue of the strength of a community?
If someone is being compassionate for another individual, it is by
them showing concern for that other individual, whether they have
a roof over their head, that old saying of someplace to hang your
hat. But it is so much more than simply where you are hanging
your hat. It is where you are able to live, marry, raise your family,
and have roots in the community. It goes to the points of the other
gentlemen and you sort of capsulized it well. Send your kids to
school and have a sense of community.
That all begins, not ends, in saying, well, this is my home,
whether that is a house I buy or that is a house that I am renting,
but realizing I have protections and the wherewithal to be able to be in that house as well. It all begins there.

To facilitate that then, you have to look—and to realizing we have problems in this area, you have to look to say, well, what are some of the problems that we need to address? I have heard a couple of them, I agree with some, I disagree with others.

I have heard we need to address income inequality, funding the model, which is the appropriate model, some models that we have in the United States versus models overseas, and the third point, third or fourth, however you are counting, no one has addressed and that is the regulatory side. And I will get into that in a minute.

Dr. Popkin raised the issue that one of the fundamental problems is income inequality. I have said this before in this committee, we can end income inequality in this country today if we just pass a law that says the top 1 percent in this country has to leave tomorrow. You would see the charts again show income inequality has been erased.

But that has done absolutely nothing for the middle-income and the lower-income people. They will still not be able to afford that house just because you got rid of the top 1 percent or the top 5 percent income earners or wealthiest people in this country. They will still have the problem of trying to afford and the daily costs of the upkeep and what have you. So it is not income inequality.

If you had said tomorrow that the builders and the investors who see there is a profit margin in building the 3,000, 5,000, 10,000 square-foot home, because there is a larger profit, is there not, in those homes that they can't do that, will that force them all then to build low- and moderate-income housing? No, not necessarily, they will just look to see whether there are other, better investment vehicles for their avenues.

So I think Mr. Russ was addressing some of those needs that you need to do to help entice and tax changes and what have you in order to say this is an investment vehicle that you can actually make a profit, and profit is not a dirty word, and still provide a benefit to the community, as Mr. Bledsoe and others have said, which is housing. So it is not income inequality.

Funding and lack of investment, I think, is where the—and different models, I think, is where the chairman wants to go on this.

The third or fourth point which no one really talks about is, why is housing so expensive in the first place? And when I talk to builders, they tell me, well, there are a couple of things there, Congressman. One is the cost of land and that is tied to trying to actually find a place where you can build low- and moderate-income housing or any housing and the cost of land as regulatory size pushes that up.

The other is basically the cost of regulation for building these houses in the first place. And I know in my State, I remember a study done years ago, and they said around 30-plus percentage of the cost of building some of these places is the regulatory side of the equation.

So I only have a few seconds left. Has anyone looked into that equation, whether it is on a State or the Federal level, as to wheth-
er the regulatory side is driving up the cost and, therefore, making the low- and moderate-income?

Mr. Gentry seems to be nodding his head.

Mr. GENTRY. Yes, sir. Let me refer you to the housing commission’s website, which is sdhc.org. We have conducted a study that is posted on that website, that we delivered to a city council committee in December—

Mr. GARRETT. Yes.

Mr. GENTRY. —that posted 11 drivers of high costs for affordable housing.

Mr. GARRETT. Okay, good.

Mr. GENTRY. Eight were city-focused, two were focused in Sacramento, and one here nationally. I would refer you to that, sir. I would be glad to speak with you about it anytime you want to.

Mr. GARRETT. I appreciate that.

And my time up, I guess, Mr. Chairman.

Chairman LUETKEMEYER. I thank the gentleman.

With that, our hearing is at an end.

I thank all of the witnesses for being here today, for your testimony, and for your answers to some difficult questions. You have given us a lot of food for thought and we appreciate your expertise and your knowledge and willingness to share it with us.

We will continue to work with each one of you to hopefully craft some things, some solutions to look at ideas, to perhaps add flexibility to existing rules and regulations or put together a pilot project of some kind. Who knows, wherever we can find ways to improve the housing situation in this country, I think that is what we need to be taking a look at.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

And with that, this hearing is adjourned.

[Whereupon, at 11:55 a.m., the hearing was adjourned.]

U.S. House of Representatives
Subcommittee on Housing and Insurance

Professor Harris Beider
Visiting Professor, School of International and Public Affairs, Columbia University in the City of New York

Professor in Community Cohesion, Coventry University, England, UK.

Additional support provided by Kusminder Chahal, Coventry University, England, UK and Arlene Conn, Baltimore, USA.

The views expressed are those of the author and should not be attributed to Columbia University or Coventry University, trustees, or funders.
Mr. Chairman and members of the Committee, thank you for inviting me to appear here today for this hearing on “The Future of Housing in America: A Comparison of the United Kingdom and the United States.” For the past 15 years, I have been conducting research on housing, community engagement and change. Previously, I led two national housing organizations in the UK. The first of showcased how social housing investment could be used as a catalyst for neighborhood regeneration, whilst the second organization I led was focused on promoting the housing needs of communities of color in the affordable housing sector. In particular, my research on housing has considered the issues of race and community engagement and promoting models of good practice related to both the US and the UK.¹ In addition, with my colleagues, Dr. Susan Popkin and Diane Levy from The Urban Institute, I have conducted two research projects comparing housing and redevelopment initiatives in the US and the UK.²

CONTEXT

Political debates on affordable housing in the United Kingdom and the United States have been at the forefront of public policy for decades. In the last thirty years, both countries have seen substantial changes to national and local approaches to affordable housing. The processes of privatization, de-regulation and the changing nature of cities and regions, together with interventions to prevent the most severe impacts of economic turbulence, have moved forward the debate considerably. In this written statement, the objective will be to compare and contrast approaches to affordable housing policies in the UK and US before reflecting on key policy interventions and considering future prospects.

There is prior significant research comparing affordable housing in the UK and US, notably the account provided by Karn and Wolman (1992). While somewhat dated, the key issues are relevant to some of the contemporary issues that this Committee seeks to address. In short, the US approach was based on a complex system of tax deductions to encourage homeownership with a small and marginal affordable housing sector when compared to the more widely supported social housing promoted by local authorities and housing associations in the UK.

Table 1 compares US and UK public assisted housing systems.

Table 1 Comparing affordable housing in the US and UK

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4 Affordable housing at below market rates

5 City government

6 Not for profit, charitable organizations that develop and manage affordable housing.
<table>
<thead>
<tr>
<th><strong>United States</strong></th>
<th><strong>United Kingdom</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Public housing authorities and not for profit organizations build and manage housing for low income communities</td>
<td>Local authorities and housing associations build and manage housing for low income communities; since 2015 need to consider using resources for ‘starter homes’ as part of home ownership push by government</td>
</tr>
<tr>
<td>Stigmatized social housing sector</td>
<td>Stigmatized social housing sector but much less so than the US</td>
</tr>
<tr>
<td>Public and assisted housing sector is about 2% of total housing stock</td>
<td>Public and assisted housing sector is about 16% of total housing stock</td>
</tr>
<tr>
<td>Public housing demolition by programs such as HOPE VI</td>
<td>Public housing transfer by Large Scale Voluntary Transfer Program</td>
</tr>
<tr>
<td>Public sector housing characterized by segregation by race and income</td>
<td>Public sector housing characterized by segregation by income rather than race</td>
</tr>
<tr>
<td>Voucher program allow tenants to move out from public housing</td>
<td>No voucher program but universal credit has been paid direct to individual since 2015 allowing transfer to private rented sector; “Right to Buy” public housing at deep discounts</td>
</tr>
</tbody>
</table>

**Source: amended from Belder (2008)**

From a review of the data in Table 1, are we to conclude that approaches to affordable housing are similar? Private housing tenure, and creating a “property owning democracy,” has become a key and shared political objective in the US and UK. Public housing has become stigmatized in both countries with the worst stock being demolished and replaced with mixed income and mixed tenure housing stock while national or federal government has encouraged housing organizations to become more efficient and deliver a wider range of housing products with fewer resources.

This Committee intends to look at lessons learned from policies and practices in the UK housing sector. In order to do so, the origins of the current system need to be considered. Affordable housing has been widely viewed as being the responsibility of government. Indeed this has been embodied since 1919 when the British Prime Minister David Lloyd-George made local authorities responsible for building social housing, or “Homes Fit for Heroes” for those soldiers who were returning to slum like conditions after military service in World War I. However, it was only after World War II that large scale council house building was undertaken by local authorities responding to a pressing need to rebuild British cities that had been destroyed or heavily damaged by bombings. As was the case in 1919, government also had to meet the
expectations of the population following the deprivations of conflict. As noted by the BBC, increasing the supply, access and above all the quality of new homes was a priority:

“...A generation was introduced to the joys of indoor toilets, front and rear gardens, and landscaped housing estates where, as the town planners boasted, a tree could be seen from every window.”

It was the public sector rather than private sector that took the lead in building housing on a mass scale. In 1945, the new Labour government worked with local authorities to build over a million new homes. In this way, social housing in the UK has been embedded as part of the welfare state. This idea was first developed by the Beveridge Report of 1942, which identified ‘five evils’ in British society: squalor, ignorance, want, idleness and disease. The creation of the National Health Service in 1948, National Insurance, Unemployment Benefit and a program of Public Housing was a vision of “the living tapestry of the mixed community,” in which “the doctor the grocer, the butcher and the farm labourer all lived in the same street.”

Affordable housing in the UK springs from the ethos of the welfare state. Local authorities and housing associations have been concerned with much more than the construction and management of housing with the engagement and wellbeing of tenants being an important concern. Housing organizations have used their anchor position within a city and neighborhood to organize training programs so that tenants have the skills to compete in the job market, created social enterprises that have been led by tenants or have a community benefit and attracted private sector investment supporting renewal. These activities that focus on social investment have sometimes been viewed as “added value” or “housing plus” initiatives.

Moving away from the principles of affordable housing could lead to a very different social housing sector that downplays community engagement and social investment and regards it as bringing a low return for investment in a sector that is more about managing the bottom line rather than the double bottom line. Affordable housing providers need to balance social and economic outcomes during a period of considerable transformation.

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9 Ibid
POLICY DRIVERS

The preceding discussion shows the strong historical and political roots of the affordable housing movement in an expansive and progressive welfare state. Affordable housing has been described as the “wobbly pillar” of the welfare state. This is indicative of how affordable housing is becoming increasingly separated from the goal of providing decent government subsidized housing to lower income households in need. In this section our attention will focus on four key policy interventions which have transformed affordable housing in the UK: Right to Buy, the 1988 Housing Act, Large Scale Voluntary Transfer and the 2016 Housing and Planning Bill.

Right to Buy

Britain in the 1970s was characterized by political discord and economic breakdown. The Keynesian economic boom had come to an end as a result of increasing commodity prices such as petroleum, severe underinvestment in infrastructure and manufacturing. The poor state of the economy was underscored by a deteriorating political climate characterized by labor disputes between government and unions, riots on the streets and coalition government.

In this context, the 1979 victory by the Conservative Party, led by Margaret Thatcher, was seen as a break with the previous political consensus of supporting the welfare state. The new government initiated a series of reforms based on de-regulation and privatization. Affordable housing, previously supported by both Labour and Conservative Parties, was seen as leading to welfare dependency and preventing people from achieving the aspiration of home ownership and a consequent property owning democracy.

“The Right to Buy” policy, which gave existing local authority tenants the right to buy their property with deep discounts, was a flagship of the Conservative government’s 1980 Housing

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Act. The premise of the policy was based on personal freedom and increased consumption, both of which appealed to voters. Home sales increased rapidly in 1981 (66,321 sold) and 1982 (174,697 sold) and continued for the rest of the 1980s. Local authority housing was a state asset and “Right to Buy” was viewed as consumer capitalism. On closer inspection, the policy was unbalanced. The best properties in the inventory sold — typically houses rather than apartments, in smaller housing developments and in the economically vibrant South rather than stagnant North. The beneficiaries were tenants working in middle income jobs who were familiar with homeowners and viewed homeownership as attainable. The average discount provided by the government for council homes sold between 1980 and 1985 was a staggering 44%. While “Right to Buy” was conceived as expanding a property owning class, the resultant benefits were limited to higher income local authority tenants.

Initially, discussions in the Conservative government deemed that the receipts from the sale of properties would be returned to local authorities to replace lost housing stock. In reality this did not occur; instead the size of the affordable housing sector was reduced considerably. As Table 2 shows, in 1981, 31.6% of the housing stock was social rental housing and by 2014 this had declined to 17.3%. The consequence for local authority tenants was equally dramatic as demand exceeded supply, which led to increases in rent and challenged the concept of affordable housing. In 1991, ten years after the first “Right to Buy” sales and rents had increased by 55% in relation to average earnings. In a seminal study on “Right to Buy,” Jones and Murie state “if it were not for the right to buy... the council housing sector as a whole would have generated huge surpluses [from rental income] and the rise in real rents ... would not have been necessary.”

Table 2. Tenure split in England

<table>
<thead>
<tr>
<th>Thousands of households</th>
<th>1981</th>
<th>2000</th>
<th>2013-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner Occupier</td>
<td>9,860</td>
<td>14,340</td>
<td>14,319</td>
</tr>
<tr>
<td>Private rental</td>
<td>1,910</td>
<td>2,028</td>
<td>4,377</td>
</tr>
<tr>
<td>Social rental</td>
<td>5,460</td>
<td>3,953</td>
<td>3,920</td>
</tr>
</tbody>
</table>

14 The Guardian ibid
15 Jones and Murie, ibid
<table>
<thead>
<tr>
<th>All dwellings</th>
<th>17,230</th>
<th>20,320</th>
<th>22,617</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of total</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owner Occupier</td>
<td>57%</td>
<td>70.5%</td>
<td>63.3%</td>
</tr>
<tr>
<td>Private rental</td>
<td>11%</td>
<td>10%</td>
<td>19.3%</td>
</tr>
<tr>
<td>Social rental</td>
<td>31.6%</td>
<td>19.5%</td>
<td>17.3%</td>
</tr>
</tbody>
</table>

Source: Annex Table 1.1: Trends in tenure, 1980 to 2013-14, English Housing Survey

In conclusion, the “Right to Buy” policy was a concerted attempt to de-regulate and privatize the affordable housing sector. For those who were successful, increasing levels of homeownership led to capital accumulation. This was part of the Thatcherite Revolution of the 1980s. However, it contributed to a housing crisis when housing units were not replaced and, consequentially, rents increased exponentially.

Housing Act 1988

A second significant reform introduced by the Conservative government was the 1988 Housing Act. This enabled housing associations to access investment from private financial markets to undertake repairs of existing housing stock and develop new housing stock. In the early 1990s, social housing development was underwritten by government subsidy of 75% of building new homes. This fell to 39% by 2010 and 14% by 2015.\(^8\)

As noted earlier, the business of housing associations was to provide affordable rental housing for low income communities. Declining levels of government subsidy and the provisions of the 1988 Housing Act resulted in increased loan financing by many housing associations. Before looking at the levels of investment into the sector, it is important to understand how housing associations were viewed as secure businesses. There are approximately 1,700 housing associations in England managing over 2 million homes.\(^7\) Assets are fixed and long term stability is demonstrated through rental income that provides 85% of the revenue stream. Employees have an ethos of professionalism combined with dedicated public service. Agencies are perceived as social enterprises regulated by the government through an arm’s length

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approach that protects against defaults. In short, housing associations appear to be an attractive option for lenders as low risk and high yield enterprises.

"The housing association sector is a diverse sector dedicated to meeting the needs of communities across the length and breadth of the United Kingdom. Although HAs are private bodies, independent of government, their range of activity represents perhaps the most successful public private partnership in the UK. Crucially, lenders to the sector are able to take full security in the form of fixed or floating charges against the housing assets, utilizing a conservative valuation methodology... they represent a low risk investment opportunity that has already attracted an estimated £62 billion of bank and capital markets finance across the UK as a whole, over £58 billion of that in England alone." 18

Since 1988, housing associations have been very successful in raising private finance to support social aims. By 2012, housing associations secured more in private finance to cover operations - £47.9 billion – than government grant - £43.8 billion – for the first time, marking a dramatic shift in the support for social housing. 19 In total, housing associations have raised over £70 billion from financial markets. 20 This is against a total valuation of housing association assets of £118 billion in 2012/13. 21

The scale of private lending is impressive and takes into account the 2008 economic crash. Indeed, housing associations access £6 of private finance for every £1 of government subsidy. There have been surprisingly few housing associations that have run into financial difficulties and this good credit history has enabled significant lending. In 2014, Notting Hill Housing Trust secured £250 million on the bond market to finance the building of 1,400 homes each year until 2020. 22 However, housing associations negotiating with bond dealers in the City of London are far from meeting the needs of low income communities.

There is concern that the mixed funding structure introduced by the 1988 Housing Act has compromised the ethos and guiding principles of housing associations. Is meeting the need of financiers more important than that of low income communities? To what extent can housing

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18 Ibid
19 Ibid
21 Heywood, Ibid.
22 Chapman Taylor, Ibid.
association staff understand the real world experiences of tenants whose conditions may be markedly different from their own? And despite the close regulation of housing associations, how resilient is the sector to another economic crash? Addressing these points is complex but supports a more nuanced understanding of affordable housing in the UK.

Large Scale Voluntary Transfer

The 1988 Housing Act was transformative. In addition to introducing the concept of borrowing to support the development and management of affordable housing, local authorities now had an opportunity to repair and renew their housing stock through the process of large scale voluntary transfer. The process was underpinned by a number of factors, including securing the support of a majority of tenants in a secret ballot, transferring stock from the public local authority to a private, albeit not for profit, housing association, and attracting investment from capital markets to repair housing stock.

Twenty years after the first stock transfer, a study by the Joseph Rowntree Foundation reviewed the impact of the policy. By 2008, 1.3 million homes had been transferred from local authorities to housing associations, £14 billion had been invested into repairing housing and more than 2 million residents had benefited from the process. Much of the impetus for the policy was supported by the new Labour government, elected in 1997 and determined to address social and economic disadvantage through working with the public and private sectors. Importantly, a “Decent Home Standard” stipulated that all affordable housing, either in local authority controlled or let by housing associations, must meet specific criteria in order to be deemed stable by 2010. Many local authorities did not have the necessary levels of funding to meet the criteria and had no choice but move in the direction of large scale voluntary transfer.

The process of large scale voluntary transfer has reshaped the social housing sector in the UK. By 2015 there had been 300 stock transfers involving more than 200 local authorities shifting

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over one million properties from the public to the private sector. These new organizations account for 44% of the 2.7 million housing association homes.

Some housing advocates have criticized the policy as being back door privatization of government assets. One of the leading organizations, *Defend Council Housing*, has been vociferous in its opposition to large scale housing transfer pointing out that tenants face the prospect of eroded housing rights, higher rents and less accountability.

“The councils pushing privatization always tries and make out stock transfer is the best thing since sliced bread. They launch an expensive and glossy PR Campaign - usually only promoting one side of the argument and often break what most people would think are basic democratic procedures to try and prevent or make it hard for anyone to put the case against. Don’t be bullied and blackmailed. Make sure that there is a full and balanced debate in your area so that tenants hear both sides of the argument.”

The advocates also point out that the focus of housing associations has shifted to working more with financiers than tenants. They are also concerned with what they perceive to be excessive salaries paid to executive and senior staff in the housing association sector and see these increases as far from the public service ethos that shaped council housing in the 20th century.

These are important counter arguments to the dominant direction towards increased privatization.

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**Housing and Planning Bill 2016**

26 Social Housing (2015) Consultation into stock transfer borrowing capacity gets underway

In May 2015, the Conservatives secured an unlikely victory in the British General Election. The topic of housing generally and affordable housing specifically was given a high profile during the campaign, with stories of young people paying high levels of rent in an unregulated private sector and often priced out of cities. This led to debates about who should have access to social housing and whether reliance on social housing led to welfare dependency.

Some have suggested that the new government proposals contained in the Housing and Planning Bill could lead to the death of affordable housing. The focus is to increase home ownership rates with new measures that include: fixed term council tenancies limited to 10 years; “pay to stay” charges for council tenants earning more than £30,000 per year (£40,000 in London); extending the “Right to Buy” to housing association tenants; and forcing Councils to sell their remaining high value properties to fund new starter homes for people under the age of 40.

The focus on home ownership means that affordable housing will become even more marginal as we noted in Table 2. As the Chief Executive of Chartered Institute of Housing, one of the leading professional housing organizations in the UK, stated:

“Our fear is that some of the proposed measures in the housing and planning bill will make it incredibly difficult for councils to build new homes – and that vital council housing could be lost... According to our analysis, almost 7,000 council homes a year could be lost when right to buy is extended to housing associations if no extra funding is provided. We also have serious concerns about pay to stay, which we believe could discourage social housing tenants from increasing their earnings or finding work, as well as pushing people into housing benefit entitlement.”

Indeed, an ex-leader of a housing association lamented that “The housing bill signals the end of the road for truly affordable housing in England.”

CONCLUSIONS

Death of social housing?


29 Ibid
Affordable housing continues to be an important part of the housing equation for many living in the UK. It was conceived as an integral component of the welfare state and ensured that many people could have a firm footing in society through the solid foundation of decent and stable housing.

Since the birth of the welfare state debates on affordable housing have focused on the who should have access to this limited resource when demand far exceeds supply. In short, who are the deserving and undeserving of a shrinking welfare state? The debate has been transformed by policy discussions related to “The Right to Buy,” the access to private finance to build affordable homes under the 1988 Housing Act, and the radical provisions in the current Housing and Planning Bill. During this period there has been a rapid decline in social housing tenure as well as a rise in home ownership and private sector rentals.

Looking to the future, there is a risk that affordable housing, as it has been known in the UK, will cease to exist. The government target to increase home ownership in the UK is currently not been born out in practice (see Table 2).

It should not be overlooked or underestimated how important affordable housing can be to the stability of a person or family or indeed a community, particularly as it relates to sustaining employment, being a productive member of society and building a stable community.

Continued investment in affordable housing should be an important component of a national housing policy, alongside other housing choices favored by many consumers and lenders.

REFERENCES


Good morning, Chairman Luetkemeyer and Ranking Member Cleaver, I am Tom Bledsoe, President and CEO of the Housing Partnership Network (HPN), a business collaborative of high-performing nonprofits that develop, own, manage and finance affordable housing and community development. Creating private sector partnerships and enterprises that achieve ambitious social missions, HPN and its member organizations work together to scale innovation and impact, helping more than a million people gain access to affordable homes and thriving communities that offer economic opportunity and an enhanced quality of life. In 2013, HPN received a MacArthur Foundation Award for Creative and Effective Institutions, and a Wells Fargo NEXT Opportunity Award in recognition of its ongoing leadership and innovation in affordable housing and community development. HPN operates businesses that help improve the efficiency and impact of our members, such as property and casualty insurance company that insures their apartments, a group buying business that helps them purchase the supplies and materials they need to build and renovate housing, and a social purpose Real Estate Investment Trust that purchases naturally occurring affordable housing. HPN is a social enterprise – we use private sector business practices to create and preserve stable homes and vibrant communities that offer an improved quality of life for residents.

Housing Partnership Network’s search for innovative social enterprise models that can better leverage private sector resources have led us to explore international examples as well as domestic, particularly from the United Kingdom. In April 2003, HPN, with support from the MacArthur Foundation, expanded its peer exchange network by organizing a visit by 15 HPN leaders to social housing organizations in the Netherlands and England. The trip concluded in a day-long forum at the Rowntree Foundation in London attended by housing leaders from the three countries. Discussions ensued over the next three years, chiefly with British colleagues, and culminated with a summit meeting in April 2007 in Washington, DC, that effectively launched the International Housing Partnership (IHP), which HPN coordinates. Since the 2007 summit, IHP has held annual meetings and formed an ongoing partnership among housing leaders in the United States, Great Britain, Canada, and Australia. The top nonprofit housing leaders in each of these countries has replicated the HPN model by building peer-based networks – Housing Partnership UK, Housing Partnership Canada and PowerHousing Australia – that have joined with HPN to constitute the International Housing Partnership. It is through this partnership that we have gained insight into the strengths and challenges facing our peers
abroad. These insights are the foundation of HPN’s policy proposals, which are premised on the core principle that high-performing, mission-driven actors can be effective developers of affordable housing.

Social Enterprise Model

Safe, decent, affordable housing plays a key role in helping improve lives and communities in the U.S. and around the globe. The ongoing shortage of affordable housing has opened the door to new ideas and thinking here and abroad on ways to manage, preserve, and develop affordable housing that are more sustainable and cost-effective, while also guaranteeing the best possible living situation for residents. The international exchanges have deepened our thinking on how the combination of social mission with private enterprise is the most effective way to develop and manage affordable housing and improve communities. We believe that housing policy in the US would benefit from an emphasis on institutions that combine deep social mission and strong business acumen. This is why after Hurricane Katrina, HPN created the Gulf Coast Housing Partnership to rebuild affordable housing in the region and why we have launched Develop Detroit, a social enterprise that is working to revitalize Detroit.

HPN members and our international colleagues share an approach to developing communities that combines the best features of mission-driven nonprofits with the entrepreneurship of the for-profit sector. The IHP has shown us that housing nonprofits that have a fundamental focus on public purpose and a commitment to reinvesting any financial return into their work but are structured to efficiently raise private capital and create partnerships with the private sector can deliver the best outcomes for people and communities while effectively leveraging limited public resources.

The materials circulated before the hearing include a paper that HPN issued this winter about the lessons that we have learned working with the International Housing Partnership, particularly from the United Kingdom. HPN’s 10 years of hosting peer exchanges between domestic and global industry leaders has helped us understand how the growth of social enterprises that develop housing in both countries has strengthened both systems. As the affordable housing systems in both countries change and evolve, we encourage the thoughtful adaptation of British practices that have worked well, while respecting successes of our own system and understanding the need for consistent resources.

Large Scale Voluntary Transfers in Great Britain

Starting in 1988, Britain has had a policy of Large Scale Voluntary Transfer (LSVT) which intended to address the growing capital needs of the aging council housing stock by transferring council housing to nonprofit housing associations. Conversations with our British colleagues about how the British policy of LSVT worked clarified our thinking about how a social enterprise model can improve the delivery of affordable housing. The policy was premised on the idea that the new nonprofit owners of the housing would be able to access private capital and reduce demands on public funds, which would help to recapitalize the housing stock and fund ongoing maintenance and management. A similar challenge has motivated policies like the Rental Assistance Demonstration (RAD) in the US.

One fundamental observation is that transferring council housing to nonprofit housing associations expanded the role of mission-oriented private housing providers in the U.K. The
Large Scale Voluntary Transfer drove a broad shift in responsibility for affordable housing management in the U.K. away from public sector local councils (the British version of public housing) and toward nonprofit housing associations. This caused housing associations to grow in scale and prominence within the U.K. housing system. Today, housing associations manage almost half of the country's social housing stock and nearly a quarter of its total rental stock, with the largest associations managing more than 100,000 units. Housing associations have adopted sophisticated property and asset management operations to manage this scale, including asset management systems that allow for pooling of revenues and costs across a portfolio of properties. This structure strengthens housing associations’ balance sheets, which helps leverage private capital that can be used to finance development or recapitalize existing properties.

The first large stock transfer happened under Conservatives, though almost 75 percent of all transfers have taken place since 1997 under Labour governments. The modern transfer process involves several phases of planning and approval. First, a local authority sponsors a competitive process where tenants get to vote whether they want to transfer the ownership and management responsibilities. If so, they choose from alternative ownership and management proposals—which can include an existing nonprofit housing association in the area or the transformation and spin off of the public council management itself into an independent nonprofit. At least 50% of the council tenants must approve a transfer and the selection of the receiving entity. Once approved, the housing association is tasked with drafting a 30 year business plan for the council properties that includes how they will assemble the private funds to rehabilitate the homes. Since 1988 over one million units transferred ownership from local authorities to housing associations.

**Investment in Housing Associations and Residents**

It is important to emphasize that housing policy in the UK has directed significant capital grants to housing associations that have put them in the position today to use this collateral to raise private financing. Unlike the US system which typically allocates grants to individual projects (regardless of whether it has a nonprofit or for profit sponsor), the UK has invested their public grants in nonprofits at the enterprise level and encouraged housing associations to own real estate on a portfolio basis. Although this public funding has been substantially reduced due to budget limitations, the historic level of investment has enabled nonprofits to build substantial balance sheets which today they use to leverage private investment.

In addition, the UK used to provide a shallow but universal housing benefit to all eligible tenants which provides support to help them afford their homes. This benefit also created a rental income stream to the housing associations which they can flexibly use at the enterprise level to raise private financing. Project-based rental assistance in the U.S. provides a much deeper subsidy but this rental income is restricted to an individual project. While it can help an owner secure or finance a mortgage on the specific property, this approach does not allow the efficient leverage of private capital on a portfolio or enterprise basis as in the UK. This has greatly expanded the capacity of British housing associations to raise funds to rehabilitate stock transfer apartments.

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The UK housing system has undergone dramatic change over the last thirty years, and has accelerated significantly since HPN began working with British housing associations in 2003. The deep reductions in the housing grants have encouraged nonprofits in the UK to pursue a more entrepreneurial model which relies on greater private financing. This shift has generated strong interest in the UK nonprofit sector in learning more about the US system which has always relied on a greater mix of private funds. The British have also sought to learn about and incorporate a second aspect of the US approach—our focus on individual assets. While the British portfolio model facilitates greater leveraging of private debt financing, the US asset based approach has generated more knowledge and investment discipline in individual properties. We believe there is enormous value in incorporating the strengths and aspects of both systems.

**Social Enterprise in the U.S.**

Social enterprises in the U.S. represent a smaller proportion of the country's total rental housing stock, but are still critical to preserving and developing affordable housing. As capital subsidies to develop new public housing were cut off in the 1980s, for profit and nonprofit housing developers filled the gap, using the Low Income Housing Tax Credit (Housing Credit.) The Housing Credit gives investors a credit on their taxes for investments in affordable housing, and today it is responsible for nearly all new affordable housing development in the U.S.

The Housing Credit also spurred the growth of the social enterprise sector in the U.S. because it required business discipline and expertise to attract investors, but it was aligned with the social purpose of creating affordable housing. The growth of social enterprises like HPN members in the U.S. has been helpful in the drive to preserve affordable housing for the future. Social enterprises leverage public funds to access private and philanthropic capital to finance housing and key services for residents, and use private-sector approaches to increase the impact of each dollar of subsidy. The entrepreneurship inherent in the U.S. system—which has been a byproduct of our more patchwork, partnership based approach—has been a key driver for the innovation and impact achieved by the leading nonprofits in the United States.

During the IHP exchange process, HPN and our members began looking to the British system for ideas that could help strengthen our own policies, programs, and resources to help us become more effective and efficient stewards of affordable housing. We saw potential to build on our existing capacity through programs that created access to entity-level capital and provided greater regulatory flexibility to manage resources across a portfolio of properties, particularly to facilitate deals that preserve legacy senior housing and Housing Credit properties reaching the end of their 15-year affordability contracts. We were especially interested in LSVT as a way to recapitalize and preserve the aging affordable housing stock and the British system's emphasis on well-capitalized, mission-oriented housing providers as central to its housing strategy.

British housing associations are currently facing declines in government funding for their system, which is in turn spurring them to become more entrepreneurial and commercially engaged in the private markets. U.S. nonprofits face many of these same challenges, and as a result have been pursuing more market based transactions which use private equity to acquire naturally occurring affordable or workforce housing. HPN launched the Housing Partnership Equity Trust, a social purpose REIT, to raise equity on a portfolio basis to help twelve nonprofits acquire and rehabilitate more than 2000 apartments with $140 million of equity investments from the MacArthur and Ford Foundations, Prudential, Citibank and Morgan Stanley. The HPN
REIT combines the portfolio flexibility of the British system with the asset based ownership and management structures utilized in the United States.

Although there are profound differences between the two systems in terms of the extent of the government role, there are also growing convergences. British practices that bolster the social enterprise model could be adapted to the American context, while maintaining the strong U.S. asset based focus. We believe this integrated approach which leverages the strengths of both models can enable nonprofits in the United States to significantly scale their impact, particularly in preserving naturally occurring affordable housing and in helping to revitalize public housing. In the following section, we outline HPN’s policy priorities that evolved from our consideration of the British affordable housing model and its applications to American programs, policies, and resources.

Five policy recommendations that aim to expand the role of social enterprises in the US affordable housing system

The following recommendations emphasize policies that increase the scale and reach of social enterprises so that we can create more affordable housing efficiently and improve communities. Our recommendations all build on features of the U.S. system that are working well now.

1: Expand the Capital Magnet Fund

The Capital Magnet Fund allows nonprofit housing developers and Community Development Financial Institutions (CDFIs) to raise capital at the entity level, as the British housing associations do. This has proven to be one of the most efficient and effective ways to use public funds to attract private investments for housing in low-income families and underserved communities. Through the Capital Magnet Fund, the US Treasury’s CDFI Fund provides competitively awarded grants to CDFIs and qualified nonprofit housing organizations. CMF awards may finance affordable housing activities, as well as related economic development activities and community service facilities. Unlike traditional housing programs, which fund individual projects and developments, CMF grants are awarded at the entity level, and awardees must commit to leveraging grant dollars with other private and public funds at a ratio of at least 10:1.

Even after just one funding round, it is clear that Capital Magnet Fund grants are spurring innovation and production among nonprofit housing providers. The average leverage ratio for the first round of awards in 2010 was 16:1, substantially higher than the mandated 10:1 leverage ratio. CMF grants supported the creation of 7,000 new units of affordable housing. CMF awardees used this flexible funding source in a variety of ways including to capitalize revolving loan funds, provide bridge financing and extend their reach into hard to serve markets. The success of the Capital Magnet Fund, even after a relatively limited $80 million dollar grant round, is a demonstration of the effectiveness of entity-level investments in high-capacity, mission-driven nonprofits. The funding for the Capital Magnet Fund should be increased to at least $500 million to improve the scale and efficiency of mission driven housing providers.
2: Prioritize Preservation

Preserving the existing stock of subsidized housing is a necessary component of a forward-looking national affordable housing strategy. The U.S. stock of subsidized housing provides over three million units of critical affordable housing for low-income people. This stock is under threat, however, by an overwhelming backlog of deferred maintenance and capital needs, with no prospect of additional funding to address them. In recent years, we’ve seen successes with nonprofit social enterprises that acquire, rehabilitate and recapitalize HUD-assisted housing stock, much of which was nearing the end of contracted affordability periods or at risk of obsolescence without substantial reinvestment. Social enterprises are uniquely qualified to do this work because they have the business skills to structure complex preservation transactions, but social mission keeps them focused on preserving affordability for the long term.

Preservation is also a key challenge with public housing properties. Years of deferred maintenance have put thousands of public housing units at risk of demolition or sale into the private market; since 1990, more than 200,000 units of public housing have been lost from the affordable housing stock. HUD’s Rental Assistance Demonstration (RAD) permits public housing authorities to convert public housing and a small number of legacy HUD project-based subsidy programs to long-term project-based subsidy contracts. In some cases, this process essentially transfers property operations to social enterprises, which can leverage private capital and other public funds to rehabilitate and recapitalize the properties.

RAD has some elements in common with the LSVT, particularly the motivating principle of transferring public-owned stock to private entities for preservation, but there are some differences. For instance in many RAD transactions, the public housing authorities may retain ownership in the partnerships managing the housing stock after conversion to project-based Section 8. In contrast, the LSVT involved a full transfer of title and ownership to housing associations—which can be either existing nonprofits or councils that have transitioned their housing operations to nonprofit status and have become part of an augmented housing association sector. In this new configuration, the council maintains its role in setting overall local housing strategy and priorities, referring tenants to the associations for lease up and, in many cases, funding services for residents.

The city of San Francisco is pursuing a broad-based RAD public housing initiative that is intended to revitalize and preserve its public housing. San Francisco transferred ownership of public housing developments to high performing housing developers, including some HPN members. San Francisco used local funds, project based vouchers, HUD funds and tax credits to pay for redevelopment and preservation of the public housing. The city retained ownership of the land below the buildings as a safeguard to preserve affordability and public purpose over the long term. HPN supports lifting the current cap on the number of units that can be transformed under RAD and suggests that after RAD has been evaluated, a broader program of stock transfer should be considered. We also support providing a stronger decision making role for public housing residents in selecting and approving plans for this transformation, including selection of the new ownership and management entity. This will insure that

revitalized former public housing developments serve existing low income residents and become vibrant mixed income communities.

3: Use a portfolio model for multifamily housing preservation

The Rental Assistance Demonstration aims to preserve public housing and some legacy project-based subsidy programs, but this still leaves thousands of aging subsidized properties in need of preservation, lest they fall out of the affordable housing stock. In particular, older HUD Section 202 housing for the elderly and Housing Credit properties approaching the end of their 15-year contracted affordability periods are at significant risk.

A key difference between the British and American systems is that the system of private sector capital invested in affordable housing in the U.S. through the Housing Credit requires properties to be managed separately, which means American developers manage their assets at the property level, rather than with a view to their entire portfolio of assets and their balance sheet. We do not propose changing the compliance structure for the 9% Housing Credit for new development, but HPN has long advocated for reforms to legacy HUD multifamily programs and the 4% Housing Credit that could create opportunities for portfolio acquisition and management models.

U.K. housing associations have demonstrated the potential for portfolio asset management models to unlock new revenue sources, streamline operations and compliance, and drive scale and performance for nonprofit housing providers. In the U.S., at the end of the initial investment period of fifteen years for Housing Credit developments, there would be efficiencies in allowing this housing to be managed as a portfolio, as in the U.K. Similarly, aging HUD-funded housing would be more efficiently maintained as part of larger portfolios.

A shift in orientation from project-level finance to enterprise-level finance for aging properties would empower social enterprises to more flexibly manage their housing portfolios, increasing their efficiency and lowering the cost of deals to acquire and preserve several affordable housing properties. A portfolio approach also would allow these organizations to take better advantage of economies of scale, facilitate new approaches to managing stock to strengthen property performance, and help scale their capacity to acquire and preserve more affordable housing.

This portfolio approach can also be used to preserve and rehabilitate the large inventory of naturally occurring affordable housing which is home to millions of low- and moderate-income Americans. This stock, which is typically non-subsidized and not rent restricted, is generally owned by for profit developers who often reposition properties for more upscale rental when market conditions allow. This forces out many lower income families – leaving cities and metro areas with an acute shortage of work force housing that is an essential component of a sustainable community and economy. The Housing Partnership Equity Trust, a social purpose REIT created by HPN, demonstrates the important role that social enterprise nonprofits can play in preserving and revitalizing this stock using a portfolio financing model. These properties can also serve the housing needs of extremely low income families because they will accept tenants with vouchers.
4: Make housing a platform for improving communities and building assets for residents

High-performing housing nonprofits are well suited to link affordable housing development to broader programs of community and individual improvement. These organizations can advance opportunity for low-income people because they combine skill in housing development with an extensive network of relationships with social service providers. Policies connecting housing with opportunity can help to expand housing providers’ capacity to do this critical work of linking affordable housing with residents’ economic well-being.

The Family Self-Sufficiency Program (FSS) is one example of a policy that, at scale and with effective management, could help residents of subsidized housing access economic opportunity and reduce their reliance on public programs. FSS combines an innovative savings program with financial coaching and counseling, with the goal of helping residents of public and project-based Section 8 housing accumulate savings over time. The best FSS programs help residents build assets and achieve financial goals. HPN members have been among the first private owners of properties with project-based subsidies to use FSS, and have adopted innovative methods and partnerships to maximize the program’s effectiveness for residents. This committee should permanently expand FSS to the project-based rental assistance inventory.

There are many examples besides FSS of HPN members expanding their reach beyond housing to improve the communities where their residents live. Holistic community development initiatives through programs like Promise Neighborhoods and Choice Neighborhoods make it possible to address the problems facing neighborhoods of concentrated poverty. These efforts help residents who choose to remain in their communities avoid displacement due to disinvestment or gentrification. HPN members are able to do this difficult community transformation work because they combine the business acumen necessary to do affordable housing redevelopment with a focus on resident needs. They can address job training, education, transportation and other needs directly or through partnerships.

5: Improve Access to Affordable Homeownership

The aftermath of the Great Recession has driven the U.S. homeownership rate down. Young people and families still strive for the goal of homeownership, but many do not have the savings, income, or credit history to access a mortgage. A dramatic increase in the stock of single-family renters reflects a broad shift to renting across household types, even households that would typically be homeowners. A similar phenomenon has been taking place in the U.K. which has witnessed a steep drop in homeownership rates in the past several years. Young people in particular are feeling the impact of lower ownership rates, to the extent that people under 35 years old are referred to as “generation rent.” The key issue in the U.K. is a steep rise in homeownership costs, coupled with – and often driven by – a dearth of housing supply. The British system has developed some variations of homeownership that somewhat mitigate the problem. These include shared ownership models, in which a household owns a portion of their home on which they pay a mortgage, and pay rent to the housing association that owns the balance. As a household’s income increases, it can purchase a larger share of the home’s value, and if their financial circumstances deteriorate they can sell back a portion of the unit – thereby avoiding foreclosure or more serious economic hardship.

3 State of the Nation’s Housing 2015, Joint Center for Housing Studies
U.K. affordable housing providers also have managed to scale single-family rental models as a viable alternative to homeownership where this makes more market sense, using highly effective property management systems and portfolio financing. In the U.S., these models are being piloted in some areas, but the private equity to support acquisition and ownership is so expensively priced that it undermines the long term stability of the housing for low and moderate income families. Instead, investors seek to generate high yields and short term profits from flipping or reselling properties. Government support for more cost effective and efficient financing – possibly provided through the GSEs – would enable social enterprise nonprofits to acquire and serve as long term stewards of these homes while incorporate rent to own or lease purchase agreements to promote eventual homeownership.

American social enterprises are pioneering other innovative homeownership programs aimed at new homebuyers and underserved communities that have much in common with the innovative shared ownership and single-family rental models adopted in the U.K. These programs often combine homebuyer education, affordable credit products or down-payment assistance, and access to an ongoing relationship with a housing counselor. Homeownership can also be part of a strategy to revitalize communities hit hard by the economic downturn, acquiring and rehabbing vacant or abandoned properties. After renovation, housing providers help first-time homebuyers purchase these properties with affordable credit products or through rent-to-own programs that help families transition to homeownership over time.

HPN and its members have used existing housing program such as the Low Income Housing Tax Credit and the HOME program in imaginative way to create a bridge between renting and owning a home. Policymakers should build on these successes to support products and programs focused on innovation and scale, such as government-backed credit products that incorporate high-quality homebuyer education and counseling, and comprehensive neighborhood revitalization programs that emphasize homeownership as a tool for spurring community investment.

Conclusion

The U.S. needs to serve more people with decent, affordable housing in safe neighborhoods because three quarters of Americans income eligible for housing assistance don’t receive it. Our reflections on the differences between the U.S. and British systems come at a critical moment in U.S. housing policy, as affordable housing providers face growing pressure to combat a mounting affordable housing crisis with declining resources. The lessons of the growth of British housing associations due to Large Scale Voluntary Transfer as well as portfolio flexibility and financing should be used to expand the role of social enterprises in the U.S. so that innovative, effective solutions to housing challenges facing society’s most vulnerable people and communities are scaled up. I encourage you to look for ways to combine the best features of the British system with the best aspects of what is working well here. Expanding the role of social enterprise to take advantage of the combination of social purpose and business discipline will help the U.S. system for affordable housing stay resilient, sustainable, and dynamic for years to come.
TESTIMONY BY
RICHARD C. GENTRY
PRESIDENT & CEO OF THE SAN DIEGO HOUSING COMMISSION

U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON HOUSING AND INSURANCE

HEARING ON THE FUTURE OF HOUSING IN AMERICA: A
COMPARISON OF THE UNITED KINGDOM AND UNITED STATES
MODELS FOR AFFORDABLE HOUSING
MAY 12, 2016

INTRODUCTION

Good morning, Chairman Luetkemeyer, Ranking Member Cleaver, and members of the subcommittee. I am Richard C. Gentry, the President and Chief Executive Officer of the San Diego Housing Commission, which serves low-income residents in the city of San Diego—the eighth largest city in the nation and second largest city in California. I am honored to be here today to testify about the affordable housing models in the United Kingdom and the United States and how they impact the future of housing in America.

I began working in San Diego in 2008; however, my experience in affordable housing spans 44 years—beginning with the U.S. Department of Housing and Urban Development (HUD) in 1972. I have served as the CEO of the public housing authorities in Austin, Texas, and Richmond, Virginia, as well as working in the private sector as the Senior Vice President of Asset Management for the National Equity Fund in Chicago, Illinois, the nation’s largest nonprofit Low-Income Housing Tax Credit syndicator, and as the Vice President for Public Housing Initiatives at the Local Initiatives Support Corporation (LISC) in Washington, D.C.

My opinions today reflect the diversity of my background and the breadth of my experience.

I am also privileged to have collaborated with my housing colleagues in the United Kingdom on several occasions, beginning in 1994 and followed by a number of visits over the years, including London, Liverpool, Manchester, Edinburgh, and most recently, Brighton in 2013.
I have come to appreciate the collegial relationship I have with my colleagues across the Atlantic.

The United States and the United Kingdom share a deep history in which similarities in their approaches to affordable housing are rooted. And we can learn from each other.

However, variations in our approaches that are based on culture and history also should be recognized.

**Similarities between the United States and the United Kingdom - History**

The United States and the United Kingdom support the same objective of empowering individuals and families to realize their potential, while providing a safety net for those who are in need or who require assistance in a competitive world.

This shared perspective is based upon a common philosophical viewpoint of the economy. Both nations espouse individual liberty, freedom of opportunity, and enabling citizens to realize their full potential.

The philosophy at the foundation of the economy in both the United States and the United Kingdom dates back more than three centuries at least to 1688, when William and Mary ascended to power as the King and Queen of Britain and brought with them an economic system that merged the freedom of the individual with collective needs. This philosophy of free market economic principles was further reinforced by the Scottish enlightenment of the mid-1700s, in particular the principles of Adam Smith, a Scottish philosopher and economist. In addition, this free market philosophy also influenced the principles of the Founding Fathers of the United States.

With this economic foundation, both the United States and the United Kingdom developed policies to help individuals and families achieve as much as possible in a competitive economy.

However, by the mid-20th century, after two World Wars and the Great Depression, and with the growing need to provide opportunities to those who had been left out of economic well-being during the first half of the century, the United States and the United Kingdom began to pursue different directions.

In particular, after World War II, there was a significant housing expansion that arrived in both the United States and the United Kingdom, but utilizing far different models for low-, moderate-, and middle-income residents.
Federally funded public housing in the United States dates back to the Housing Act of 1937, which provided Federal funds to public housing for low-income working class families. However, public housing proliferated after the Housing Act of 1949, which began applying income limits so that public housing served low-income residents, while working class families were supported in their access to private sector housing.

HUD was created by legislation in 1965 to oversee Federal housing programs for vulnerable low-income households, such as seniors, individuals with disabilities, and families. As this subcommittee is assessing HUD programs 50 years later that serve our most vulnerable families, it is important to note, however, that private sector rental housing today continues to provide the majority of the rental housing opportunities for both Americans who receive Federal housing assistance and those who do not.

According to HUD, approximately 1.2 million American households live in public housing, which is 1 percent of the approximately 116 million households in the United States, based on U.S. Census Bureau data. In addition, approximately 5 million households, or 4 percent of all households in the United States, receive Federal Housing Choice Voucher rental assistance, according to the Center on Budget Policy and Priorities, based on HUD data obtained through a research agreement. In addition, the highly successful Federal Low-Income Housing Tax Credit program, created in 1986, which assists the development of affordable housing, has financed nearly 3 million apartments for low-income families, seniors, Veterans, and individuals with special needs since its inception 30 years ago, according to the National Council of State Housing Agencies.

The primary government-sponsored resources for the development of housing options for moderate- and middle-income Americans after World War II were Federal Housing Administration (FHA) insurance, authorized in 1935, and the secondary mortgage market, known as the Federal National Mortgage Association, or Fannie Mae, authorized by Congress in 1938. These two programs created a vast expansion of home ownership rates after World War II. In addition, there was substantial growth of private sector rental housing, which provided the housing basis for enhanced economic mobility for many Americans.

However, after World War II, during the time that the United States was developing private market housing programs for moderate- and middle-income Americans and public rental housing for low-income Americans, the United Kingdom developed large swaths of government-owned housing controlled by city and county councils, called “council housing.” By the 1980s, more than 40 percent of the population lived in rental “council housing,” including both low-income and middle-income workforce families.

I would contend that this post-World War II approach by the United Kingdom was counter to the long-term British economic tradition and was not matched by the United States.
In the 1980s, the United Kingdom began to return to what I believe is its more traditional economic perspective by providing greater and more varied housing options, particularly for middle-income workforce families. Policies were developed to reduce the large percentage of British residents living in council housing. This included the Right to Buy under certain circumstances, and in 1988, the beginning of the transfer of “council housing” to nonprofit associations.

However it is important to note that the transfer of affordable housing stock to nonprofit associations was the result of broad fiscal responsibilities that do not apply to the United States. By European Union edicts, the debt from “council housing” added to the United Kingdom’s national debt and impacted the ratio of debt to Gross Domestic Product, a critical European Union metric. The transfer of “council housing” to nonprofit associations was primarily motivated by the objective of moving the debt off of the government’s balance sheet.

**Lesson Learned from the United Kingdom**

As I noted previously, the debt issue that the United Kingdom has taken steps to correct by transferring council housing is not a problem that is replicated in the United States. We should be careful not to try to solve a problem that does not exist here.

What does apply to both the United States and the United Kingdom is the focus on:

1. A set of values that creates multiple opportunities for individuals to achieve and become more financially self-reliant; and
2. The need to employ private sector discipline insofar as it is possible in the public sector to provide housing for low-income Americans.

With that said, I believe that the United States’ traditional public housing program is no longer viable in its current form to continue serving the needs of low-income Americans. America’s traditional public housing program has been, since its inception, a top-down, one-size-fits-all, centralized, command-and-control program operated in Washington, D.C., that is intended for implementation uniformly across the country. In a country as large and diverse as the United States, a public housing program with centralized mandated rules does not work.

This is not criticism or denigration of the low-income individuals and families who live in public housing or those who operate the program. However, the program’s structure is flawed and needs to be changed to more efficiently use taxpayer resources to serve the housing needs of low-income Americans. To identify and implement needed changes, and ultimately for the good of the residents and taxpayers, we can learn from the intent of the British model, which is providing more housing options now than under the “council housing” system, more than from the specifics of their programs.
CREATING HOUSING OPPORTUNITIES FOR THE NEXT GENERATION—USING THE SAN DIEGO MODEL

As this subcommittee considers the question, “In the U.S., what will the housing market look like for the next generation?” I submit that for affordable housing, it should look much like San Diego, where we at the San Diego Housing Commission (SDHC) in recent years have implemented innovative approaches that bring together government and the private sector in partnerships to create and preserve affordable housing, provide Federal rental assistance, and address homelessness.

This innovation is essential to face the challenge of creating and preserving affordable housing in the city of San Diego.

Private sector renters in the San Diego metropolitan area paid approximately 40 percent of their monthly income toward rent at the end of 2015—10 percent more than what HUD defines as “affordable,” no more than 30 percent of income expended on housing.

According to the San Diego Association of Governments’ Regional Housing Needs Assessment Plan, the city of San Diego needs 38,680 additional affordable housing units for low- and very low-income San Diegans by 2020.

And to meet this challenge, let me further explain how we are increasing our affordable housing stock and what economic tools we are using to ensure our residents have housing opportunities available to them:

Creating and Preserving Affordable Housing Opportunities

- Public Housing Conversion – Enhancing Public-Private Partnerships
  A landmark agreement on September 10, 2007, between SDHC and the U.S. Department of Housing and Urban Development (HUD) transferred full ownership and operating authority for 1,366 public housing units to SDHC—the largest public housing conversion at the time.

  In exchange, SDHC committed to leverage the equity lying fallow in these former public housing units to create at least 350 additional affordable housing units—a number SDHC far surpassed.

  “What the San Diego Housing Commission did was basically say we can’t rely on the federal taxpayer to continue to maintain units, because it’s not serving our residents well.
It’s not serving our community well. They essentially took resources, and then they created better units with them,” said Orlando Cabrera, the former HUD Assistant Secretary, who approved the landmark agreement with SDHC.

The SDHC Board of Commissioners and the San Diego City Council approved SDHC’s application to withdraw from HUD’s public housing program, which HUD also approved. SDHC then implemented an innovative Finance Plan that was developed in 2009, which leveraged significant private sector financial investment.

San Diego City Councilmember Todd Gloria, who served on the SDHC Board of Commissioners at the time the agreement with HUD was being negotiated, said: “I think the concern that I had was how do we maintain the solvency of the agency as we saw the subsidy being reduced. That obviously produced a lot of financial challenges to the organization.”

SDHC leveraged the equity from this new real estate portfolio to create or preserve 810 additional affordable housing in the city of San Diego through direct acquisitions and public-private partnerships. All of the units will remain affordable for at least 55 years.

When the former public housing units converted to SDHC ownership, residents were provided with Federal Section 8 Housing Choice Vouchers. They could then use the vouchers at their existing units or take them with them as rental assistance to another rental home of their choice. Approximately 50 percent of the residents chose to stay at their existing units.

The public housing conversion emerged from a growing realization by the SDHC Board of Commissioners and executive leadership that SDHC’s dependence upon the Federal government’s historic investment in construction and maintenance of public housing could not be sustained under the current Federal model.

Federal public housing subsidies for operations and maintenance were based on a formula, were not keeping pace with need, and were counterproductive to good private sector management techniques. Across the nation, fewer new public housing units were being developed despite a growing demand for workforce and family housing.

“...I think one of the most important things is that it created public-private partnerships, gave the Housing Commission the ability to sustain even more affordable housing units and to serve more people, to serve more families. And today if you look at the environment around us where you see an economic downturn, foreclosures, families who are in greater need than they were before, you know it was a really smart thing to do,”
California State Assemblymember Toni Atkins, the former Speaker of the California State Assembly and a former San Diego City Councilmember, said in 2012:

On October 2, 2012, SDHC published a special multimedia digital report about the landmark public housing conversion and SDHC’s Finance Plan. The report, “Creating Affordable Housing Through Public Housing Conversion,” is posted on SDHC’s website:

I also presented SDHC’s public housing conversion experience to colleagues in the United Kingdom on March 6, 2013, at the Chartered Housing Institute’s South East Conference & Exhibition in Brighton.

In addition to SDHC’s own particular type of public housing conversion, there is another landmark Federal program that provides additional public housing authorities with similar opportunities to transform or enhance their public housing:

- Rental Assistance Demonstration
  Nearly four years after SDHC’s landmark public housing conversion agreement with HUD, the Federal Consolidated and Further Continuing Appropriations Act, 2012, was enacted on November 18, 2011, creating the Rental Assistance Demonstration (RAD) program.

  RAD allows public housing to be converted to long-term, Section 8 Housing Choice Voucher project-based rental assistance contracts. This conversion under RAD enables properties to obtain private financing to perform maintenance that had been deferred.

  Although SDHC has not yet participated in RAD, we may utilize RAD in the future for our 189 remaining public housing units, and we support the public-private principles RAD is based upon.

- Public-Private Partnerships

  Public-private partnerships are important for the future of affordable housing, as noted in both of the reports this subcommittee is reviewing, which compare the affordable housing models in the United States and the United Kingdom.

  I acknowledge the value of these reports. However, I will point out that there are many options available for the development of affordable housing. The identity of the
participants involved with providing affordable housing is not as critical as the rules they are required to follow. The programmatic structure of the Federal public housing program is the issue.

Replacing the public sector with a private sector organization is not a magic answer. Rules need to be reformed so there is sufficient capital to support the physical structures of public housing and so the housing subsidy system will encourage individual financial self-reliance.

For example, San Francisco recently broke up its public housing and distributed it to nonprofit organizations in the Bay Area for management. I applaud this action. In San Francisco, it makes sense. There are many first-class housing nonprofits in the Bay Area, such as Eden Housing, Mercy Housing California, EAH Housing, BRIDGE Housing and other organizations that do outstanding work.

However, it should be noted that the City of San Francisco is directing additional financial resources of its own to supplement the public housing system to make this conversion work. Absent the extra City funding, the conversion from public to private operations would be much more problematic.

Even the best private sector nonprofit organization managing public housing will experience difficulties under the current structure. As we have shown with the San Diego model, with the exception of SDHC’s remaining 189 public housing units, the remainder of our programs are financially solvent and fiscally responsible. We are serving thousands of low-income families and are operating as faithful stewards of taxpayer resources.

Since 1981 SDHC has helped to create 16,049 affordable apartments in the city of San Diego through these public-private partnerships as a:

- Development partner;
- Lender (funding sources include Federal, State of California, City of San Diego and SDHC funds);
- Issuer of Multifamily Housing Revenue Bonds, which are administered by the State of California and are paid with project revenues, creating no financial liability for government agencies; and
- Administrator of City of San Diego affordable housing funding, such as Inclusionary Housing Fees charged on residential developments and Housing Impact Fees applied to commercial developments).
It is important to note that partnerships between SDHC and private nonprofit and for-profit developers continue to successfully create and preserve affordable housing in the city of San Diego.

SDHC partnership developments invested more than $675 million in total development costs to create and preserve affordable housing in the City of San Diego that was completed or under construction in Fiscal Year 2015 (July 1, 2014 – June 30, 2015).

The creation or preservation of 897 affordable housing units was completed. The new construction or rehabilitation of an additional 1,273 affordable housing units was under way in Fiscal Year 2015.

- HUD HOME Investment Partnerships Program Funds

One of the critical sources of Federal funding for affordable housing development is HOME Investment Partnerships Program funds, which are awarded by HUD to the City of San Diego and are administered by SDHC.

Since 1992, SDHC has administered more than $186 million in HOME funds awarded by HUD to the City of San Diego, through December 29, 2015. Many of these funds have been used to create 1,785 affordable rental housing units and help 593 homeowners rehabilitate their properties.

One of the innovative developments constructed with HOME funds administered by SDHC is COMM22, a property located at the intersections of Commercial and 22nd streets, which celebrated its grand opening on May 8, 2015.

COMM22 consists of two separate apartment buildings, each four stories high:

- Victoria at COMM22, 69 affordable studios and one- and two-bedroom apartments for seniors (62+) and one manager’s unit.
- Paseo at COMM22, with 128 affordable units of one-, two- and three-bedroom apartments for families and two manager’s units. Included are 13 units of supportive housing for youth aging out of the foster care system who also have a mental illness, who will receive services under the state Mental Health Services Act (MHSA) program.

SDHC invested $4,190,000 from HOME funds toward the total development cost of $28,799,000 for Victoria at COMM22, which also received a HUD 202 Capital Advance Loan of $4,868,300 for 30 senior units, for which HUD has also awarded federal rental assistance for very low-income seniors, who will pay 30 percent of their income toward rent, with no minimum income requirement.
Additional partners in the public-private development of COMM22 included the developers, BRIDGE Housing Corporation and Metropolitan Area Advisory Committee on Anti-Poverty (MAAC), in partnership with the San Diego Unified School District.

In addition, SDHC has utilized HOME funds to create homeownership opportunities for 1,891 first-time homebuyers. The HOME program provides the flexibility to leverage private sector resources and create homeownership.

However, Federal funding for the HOME program has been cut in half, from $1.8 billion in the Federal Fiscal Year 2010 (October 1, 2009 – September 30, 2010) to $950 million in Fiscal Year 2016.

- Federal Low-Income Housing Tax Credit Program

The Federal Low-Income Housing Tax Credit Program, administered in California by the California Tax Credit Allocation Committee, is a successful and critical source of financing for affordable housing partnership developments. It is also a good example of public-private partnerships leveraging substantial private sector investments in affordable housing.

In the City of San Diego, Low-Income Housing Tax Credits have financed 13,960 units of affordable rental housing at 130 properties since 1989.

For example, one recent SDHC public-private partnership that was partially financed with Low-Income Housing Tax Credits:

- **Independence Point Apartment Homes (formerly known as Willie James Jones Apartments)**: 31 newly constructed affordable housing units, of which 25 are set aside for households with members who have developmental disabilities. Units will remain affordable for 55 years.
  
  Grand Opening: March 25, 2016.

  Independence Point is the first residential complex in Southern California to provide affordable housing specifically for families with at least one member who has a developmental disability, which includes cerebral palsy, epilepsy, autism, and intellectual disabilities.

  Chelsea Investment Corporation developed Independence Point in partnership with SDHC and the Southern California Housing Collaborative, a San Diego-based a nonprofit organization that locates and
secures affordable housing opportunities for low-income individuals with developmental disabilities.

Chelsea Investment Corporation is one of the top 20 developers of affordable multifamily housing across the nation according to the Affordable Housing Finance magazine’s website, www.housingfinance.com. More affordable housing developers like Chelsea Investment Corporation under the leadership of Jim Schmid are needed.

- **Leasing City of San Diego Land to Preserve Affordable Housing**

The preservation of existing affordable housing is critical to meeting housing needs today and in the future, a principle also noted in the Housing Partnership Network’s report, which this subcommittee is reviewing.

To ensure that affordable apartments will remain affordable for seniors for decades to come, the City of San Diego entered into a new lease for the City-owned land on which an affordable apartment complex for seniors is built. SDHC renovated the San Diego Square Senior Apartments with SDHC’s nonprofit affiliate, Housing Development Partners (HDP).

San Diego Square Senior Apartments in Downtown San Diego underwent a top-to-bottom overhaul and will continue to provide 154 apartments for low-income seniors that will remain affordable for 65 years.

“What a transformation we’re seeing right before us. It’s a perfect example of the innovative ways that San Diego is using to deal with affordable housing,” San Diego Mayor Kevin Faulconer said at the grand reopening of San Diego Square last month.

The year-long makeover – which ranged from replacing the building’s aging roof to installing energy-efficient doors, windows and appliances – was the first major renovation of San Diego Square since it was built in 1979.

San Diego Square was purchased on February 13, 2014, through a partnership between SDHC, HDP, and LISC San Diego, the regional chapter of the Local Initiatives Support Corporation, a national nonprofit dedicated to investing in affordable housing and community development initiatives.

Additional financial partners who were essential to the renovation of San Diego Square were Citibank and Boston Capital. Funding included more than $17.8 million
from State Multifamily Housing Revenue Bonds, which were authorized by SDHC and approved by the Housing Authority of the City of San Diego, and were sold to Citibank to finance the purchase and renovations. Boston Capital provided more than $12.1 million in tax credit equity.

HUD was also an essential partner, administering Project-Based Housing Vouchers that provide Federal rental assistance of $1,445 per unit, per month for the 154 affordable housing units ($2.6 million per year).

HUD’s contract to provide Federal rental assistance to residents at San Diego Square would have expired in January 2014. However, with the purchase of San Diego Square on February 13, 2014, HUD agreed to a 20-year extension of its Federal rental assistance contract, through October 26, 2034.

“It’s more than just bricks and mortar. It’s somewhere folks can call home. There is a computer lab, there is an exercise room, there is a swimming pool, there’s easy access to transportation and that says something for the vision of (SDHC) that we’re not just going to house seniors in an apartment and let them fend for themselves,” said Marcie Chavez, Director of the U.S. Department of Housing and Urban Development’s (HUD) Los Angeles Office of Public Housing.

• Sustainable and Transit-Oriented Development

The housing market for the next generation should empower individuals to find affordable housing near employment opportunities with access to public transportation.

This continues to be a priority for SDHC, which developed a “Three-Year Work Plan to Facilitate Transit-Oriented Affordable Housing Development” in 2011, and updated the plan last year.

HUD defines transit-oriented development as: “A compact, mixed-use community located within an average 2,000-foot walking distance of a transit facility that promotes economic prosperity and environmental sustainability by providing people of all ages and incomes with improved access to affordable and convenient public transportation including travel by transit, foot, or bicycle.”

This promotes sustainable communities by providing people of all ages and incomes with improved access to transportation and housing choices.
Sustainable affordable housing that is environmentally friendly is also essential for the future, with amenities such as solar heating or photovoltaic power, water-saving fixtures, energy-efficient appliances and drought-tolerant landscaping.

On January 20, 2012, the SDHC Board of Commissioners adopted “Sustainable Development Guidelines”:

- Educate residents about energy and water conservation and their impact on the environment
- Use efficient landscaping
- Increase efficiency with building systems and components
- Adopt standards for new construction
- Adopt site selection guidelines

Public and neighborhood groups were consulted as part of the review process for these guidelines, as were appointed and elected officials.

Providing Rental Assistance

- **Section 8 Housing Choice Vouchers**
  In addition to public-private partnerships to create and preserve affordable housing units, SDHC engages with private sector landlords to establish more affordable housing opportunities by providing Federal rental assistance.

  SDHC partners with HUD to provide the most vulnerable San Diegans with rental assistance to help them locate housing in the competitive, high-cost San Diego rental housing market.

  The Section 8 Housing Choice Voucher rental assistance program is the most useful affordable housing program that I have seen the Federal government develop in my 44 years working with affordable housing, and it is the largest program administered by SDHC. It is the most effective option available in the United States today and in the future for providing affordable housing for low-income individuals and families.

  In addition, this program allows local agencies, such as SDHC, the flexibility to categorize Housing Choice Vouchers in ways that best serve their local communities, such as:

  - **Project-Based Housing Vouchers**: Federal Project-Based Housing Vouchers are awarded to specific affordable housing developments to provide rental assistance linked to their units. When a tenant moves, the rental housing voucher remains
with the affordable housing unit so that another low-income or homeless San Diegan is able to move into the unit and receive rental assistance.

- **Sponsor-Based Housing Vouchers:** SDHC awards Federal Sponsor-Based Housing Vouchers to nonprofit organizations, or “sponsors,” that provide supportive services to homeless San Diegans. Sponsor-Based Housing Vouchers provide rental assistance that pays up to 100 percent of the tenant’s rent, depending on their income level.

More than 15,000 low-income households in the city of San Diego, including homeless San Diegans and chronically homeless Veterans, receive Federal Section 8 Housing Choice Voucher rental assistance from SDHC.

These households include more than 37,000 men, women and children.

Approximately 56 percent of these households are seniors or individuals with disabilities.

In addition to assisting low-income households to obtain rental housing, SDHC’s Housing Choice Voucher program invests millions of dollars in the local economy each year.

In Fiscal Year 2015 (July 1, 2014 – June 30, 2015), SDHC paid $141,953,109 to 5,600 participating landlords in the city of San Diego, who are essential to providing affordable housing to low-income San Diegans.

- **Moving to Work**

The U.S. government’s creation of the “Moving to Work” program in 1996 established a significant tool to provide affordable housing opportunities, combining the flexibility to foster innovation with continuing government oversight from HUD. Public housing authorities must submit their proposed new MTW programs to HUD for approval.

MTW lessens the impact of the top-down approach of the public housing program because it provides flexibility and allows local agencies to determine the most effective programs for their communities.

MTW has been especially significant in the expensive housing markets of California, including San Diego.
SDHC is one of only 39 public housing agencies, out of 3,400 nationwide, to receive the MTW designation from HUD, which allows flexibility to create innovative, cost-effective approaches to provide housing assistance to low-income families.

I want to thank the members of this subcommittee for your efforts to extend the contracts of MTW agencies, such as SDHC, for 10 more years, through 2028, which was approved in the Consolidated Appropriations Act of Fiscal Year 2016 on December 18, 2015.

This Congressional action also will expand the MTW program to an additional 100 public housing agencies across the country. I believe that the MTW program should eventually apply to all public housing agencies other than those identified by HUD as “troubled” to provide them with the structure and flexibility to design programs in their communities.

In San Diego, the MTW program has allowed SDHC to encourage families and reward them for productive activities, as you will see in my comments about the SDHC Achievement Academy.

SDHC’s MTW initiatives provide: opportunities for Section 8 Housing Choice Voucher rental assistance participants and public housing residents to become more financially self-reliant; funding toward the creation and preservation of affordable housing for homeless San Diegans; and rental housing vouchers to address homelessness.

- SDHC Achievement Academy

A significant component of SDHC’s MTW initiatives is that we want to reward households for taking steps to move to work. The SDHC Achievement Academy is a critical MTW initiative to help low-income residents break the cycle of poverty and become more financially self-reliant.

On October 4, 2010, SDHC opened the SDHC Achievement Academy, a state-of-the-art learning and resource center and computer lab at SDHC’s headquarters in Downtown San Diego. The SDHC Achievement Academy provides programs that emphasize career planning, job skills and personal financial education—at no cost to Section 8 Housing Choice Voucher rental assistance participants and public housing residents.

In Fiscal Year 2015 (July 1, 2014 – June 30, 2015), 1,667 participants received services at the SDHC Achievement Academy, and 2,000 participants are projected to receive services in Fiscal Year 2016 (July 1, 2015 – June 30, 2016).
The SDHC Achievement Academy’s main program is Family Self-Sufficiency (FSS).

Heidi, age 39, was a homeless, pregnant teen when she began receiving Federal rental assistance from SDHC in 1997. She began participating at the SDHC Achievement Academy in 2012 and enrolled in FSS.

Working as a waitress, she was able to obtain an associate’s degree in 2007. Two years later, she graduated from California State University, San Marcos with a bachelor’s degree in criminology and justice studies, and began her doctoral studies in sociology at the University of California, San Diego, where she will defend her dissertation on May 20, 2016, to obtain her Ph.D.

“There is absolutely no way that I would have had the opportunity to go to school if I didn’t have my rent subsidized. I didn’t have to work three jobs to support my family. I was able to take that time and go to school. I always felt like I had someone in my corner, someone that supported me, someone that wanted me to be successful, and I’m speaking specifically of FSS,” Heidi said.

Heidi will be looking for work as a professor and plans to phase out of Federal rental assistance in two years, making assistance available for another low-income family.

SDHC utilized MTW flexibility to redesign the SDHC Achievement Academy’s FSS program, to provide enhanced opportunities for families to become more financially self-reliant.

As of March of this year, 326 individuals are participating in the SDHC Achievement Academy’s FSS program.

A voluntary, two-year program, FSS provides a variety of courses, including: job training, career planning, and financial literacy education, such as budgeting, saving, establishing good credit, and income tax preparation.

Participants are required to follow a career plan and obtain a job working at least 32 hours per week. FSS is available at no charge to the head of household receiving SDHC HCV rental assistance and public housing residents.

SDHC Achievement Academy FSS participants are able to earn up to $10,000 in an interest-bearing escrow account based upon their educational and employment-related accomplishments. Funding for these financial incentives is provided by HUD. FSS
program participants may use these funds as they wish when they complete the program.

- **Choice Communities**

The United States and the United Kingdom have both experienced transitions in their affordable housing, with a shift to communities that bring together a combination of income levels instead of concentrating low-income housing in one location.

In San Diego, one of the programs that helps to achieve economic integration through more economically diverse, balanced communities is SDHC’s Choice Communities program (not the Federal Choice Communities program), an MTW initiative that began on January 1, 2010.

SDHC’s Choice Communities program helps Section 8 Housing Choice Voucher rental assistance participants move from high- and medium-poverty areas to low-poverty neighborhoods in the city of San Diego.

Since the launch of the program, 288 low-income families in the city of San Diego have been able to move to areas with more options for transportation, schools, and employment opportunities.

Leasing a three-bedroom home from a private landlord was possible for Maria and her two sons, ages 6 and 12, because of SDHC’s Choice Communities program. A no-interest loan through the program helped Maria pay the security deposit for the rental home.

“I would not have been able to do that on my own because that’s a lot of money for me as a single mom,” said Maria, who works in customer service for a local hospital. Maria has received Federal HCV rental assistance for the last six years.

The Choice Communities program:

- Allows a higher monthly rent subsidy, or “payment standard”
- Provides no-interest loans of up to $1,450 for security deposits, to be paid to the property owner, with low monthly repayments
- Provides additional resources, information and guidance to families interested in moving to one of the specified low-poverty Choice Communities

Overall, 804 Housing Choice Voucher families live in Choice Communities, including families who lived in these neighborhoods before the Choice Communities
program began or who are new to SDHC’s Housing Choice Voucher program and chose to live in these communities.

I believe that, as we move forward, many of the programmatic tools already exist to assist low-income families, as I have shown with the San Diego model. To help low-income families move out of poverty, it is essential for local agencies to be provided with the flexibility to choose the options that show the greatest success in their communities.

Addressing Homelessness

The flexibility to meet local needs is utterly essential to effective affordable housing strategies. Challenges are not the same in all cities and counties across the country. A specific challenge for affordable housing in San Diego is homelessness.

The San Diego region ranks fourth in the nation in homeless population, behind New York, Los Angeles, and Seattle, according to the Annual Homeless Assessment Report to Congress, published in November 2015.

- **Housing First Model**

  The future of affordable housing includes providing housing opportunities for homeless seniors, Veterans, families, and individuals.

  SDHC is a driving force of the national Housing First model in the city of San Diego – to provide homeless individuals with housing as quickly as possible, with supportive services as needed.

  As an MTW agency, SDHC on July 1, 2010, became one of the first public housing authorities in the nation to receive approval from HUD use Federal rental housing voucher funding to provide long-term housing for chronically homeless individuals.

  HUD also approved SDHC’s request to utilize its MTW status to invest its Federal funds to preserve or build affordable housing for homeless San Diegans.

- **HOUSING FIRST – SAN DIEGO**

  SDHC is applying the power of these Federal resources to address homelessness through **HOUSING FIRST – SAN DIEGO**, SDHC’s three-year Homelessness Action Plan (2014-17), which was launched on November 12, 2014.
1. **Award Development Funds – Up to $30 Million** over three years (Up to $10 million each year) to create permanent supportive housing that will remain affordable for 55 years

   In the first year, SDHC awarded $8.2 million in Federal, State, and City of San Diego funds administered by SDHC to two developments, which will provide a total 121 affordable housing units for homeless individuals.

2. **Commit up to 1,500 Federal Rental Housing Vouchers** for Permanent Supportive Housing to provide housing to homeless individuals and families (Award up to 300 new housing vouchers each year to complement 576 housing vouchers already awarded)

   SDHC awarded 180 new Federal rental housing vouchers in the first year.

3. **Renovate Hotel Churchill – 72 Units of Permanent Supportive Housing:**
   56 units for homeless Veterans; 8 units for youth aging out of foster care; and 8 units for adults exiting the corrections system who also need supportive services

   The renovation of the historical Hotel Churchill is scheduled to be completed this summer. SDHC is working with its nonprofit affiliate, Housing Development Partners, to rehabilitate Hotel Churchill. SDHC invested $9.2 million in MTW funds; $2.9 million in HOME Investment Partnerships Program funds awarded to the City of San Diego and administered by SDHC; and $3.2 million in City of San Diego funds administered by SDHC toward the $20.5 million rehabilitation cost.

4. **Invest MTW Federal Funds to Acquire Property** that sets aside 20 percent of its units for permanent supportive housing for homeless San Diegans.

   SDHC invested $15 million in MTW Federal funds to purchase the 120-unit Village North Senior Garden Apartments. Twenty percent of the units – 24 units – are set aside for homeless seniors.

5. **Dedicate SDHC-Owned Housing Units – 25 for Homeless San Diegans.**

   SDHC is one of the first public housing agencies in the nation to commit affordable rental housing that it owns for this purpose.
This is a rapid re-housing component of HOUSING FIRST – SAN DIEGO. In the first year, 6 families became financially self-reliant and are now able to pay full rent or have moved to another apartment. The program served 132 individuals, including 85 children and 12 Veterans in the first year.

SDHC’s multimedia digital report about HOUSING FIRST – SAN DIEGO was published on November 21, 2014, and is posted on SDHC’s website:


New initiatives for the second year of HOUSING FIRST – SAN DIEGO include:

1. The 1,000 Homeless Veterans Initiative – Provide housing opportunities for 1,000 homeless Veterans in the city of San Diego within one year
2. The Guardian Scholars Program at San Diego State University – Rental assistance for up to 100 students who have been homeless or at risk of homelessness
3. The Monarch School Project – Federal housing vouchers for 25 families with students impacted by homelessness

News releases about these new initiatives are available on SDHC’s website:

- March 1, 2016: The 1,000 Homeless Veterans Initiative

- December 3, 2015: The Guardian Scholars Program and The Monarch School Project
  http://www.sdhc.org/uploadedFiles/Media_Center/News_Releases/NR.SDHC-SDSU%20HousingFirstSanDiego.12.3.15.pdf

CONCLUSION

Although programs may vary from one country to the other, the commonality of intent between the United States and the United Kingdom remains remarkably consistent. The housing policies of both countries continue to evolve, moving toward greater public-private partnerships and locally derived options and moving away from uniform, centrally planned, mandated programs.

In both countries, we collaborate and innovate to achieve the objective I stated at the beginning of my testimony today—an objective shared between the United States and the United Kingdom:
to empower individuals and families to realize their potential, while providing a safety net for those who are in need or who require assistance in a competitive world.

As approaches toward affordable housing evolve in the United States and the United Kingdom, I encourage all of us to be constantly open to identifying a continuously changing variety of solutions and to recognize the importance of both the government and the private sector to meeting the housing needs of our unique communities.
Chairman Luetkemeyer, Ranking Member Cleaver, and other Members of the Subcommittee, thank you for inviting me here today. My name is Jaime Lee and I am an Assistant Professor at the University of Baltimore School of Law, where I teach the law of Business Organizations and also direct the Community Development Clinic.

I respectfully submit three key points for your consideration:

• Public housing rights are at risk under privatization due to extremely weak legal monitoring and enforcement.
• Stronger enforcement is needed to carry out Congressional intent to preserve these rights, and to ensure that contractors provide the benefits that they are being paid to provide.
• Privatization programs raise concerns about long-term affordability and about the potential exclusion of those in great need of public housing.

RELEVANT EXPERIENCE

I became familiar with public housing privatization as a lawyer in private practice. From 2002-2009, I represented public housing authorities across the country who partnered with private developers under HOPE VI and other programs and assisted them with transactional, financing, and regulatory issues.


The matters presented arise from my research on public housing privatization in the United States, and appear to have analogs in the British programs being reviewed by the Subcommittee today.
EXECUTIVE SUMMARY

Public housing rights are at risk, even though Congress has mandated their preservation under privatization. These rights are derived from Constitutional norms and include:

• the right to remain in the housing unless there is legal good cause for eviction;
• the right to contest harmful acts by a landlord, without requiring the resources to mount a formal court action; and
• the right to participate (to be informed and to be heard) with respect to management decisions affecting one’s housing.

These rights are at risk due to an extremely weak legal monitoring and enforcement infrastructure.

• Little to no data is collected on whether these rights are being respected, and existing legal remedies are ineffective or ill-suited to the privatized context.
• Low-income tenants also have no consumer power to “walk away,” and thus there is no market-like system for “weeding out” poor performers.
• Stronger enforcement is needed to carry out Congress’ intent to preserve these rights and to ensure that contractors provide the benefits that they are being paid to provide.
• Options for improved rights enforcement may include stronger transparency requirements; a legislative mandate for federal oversight and enforcement; and the dissemination of data that may be used to monitor rights compliance.

Privatization also raises concerns about affordability and about who can access public housing.

• Affordability may be jeopardized if insufficient public funding increases pressure to raise rents using legal waivers.
• Legal tools that make it harder to get into and stay in privatized public housing may be used to exclude or evict those who may most need public housing.

My brief review of the Large-Scale Volunteer Transfer Program in the United Kingdom appears to underscore these concerns in the following ways:

• Government oversight of tenants’ rights under privatization has been greatly diminished in the UK, although rights enforcement is necessary, since 47% of tenants reported that nonprofit housing providers failed to live up to their promises.
• Insufficient funding for privatized programs is also a significant concern for UK providers.
• Access to privatized public housing is viewed as much more restrictive in the US than in the UK.
DETAILED TESTIMONY

Tenants’ rights are discussed below. Potential effects on affordability and accessibility are discussed beginning on page 11.

THE UNENFORCED CONGRESSIONAL MANDATE

Since the mid-1990’s, federal policy has promoted the privatization of public housing through the HOPE VI Program, the Choice Neighborhood Program, and the Rental Assistance Demonstration (RAD) Program.

Throughout these privatization experiments, Congress has largely demanded that private housing providers (whether for-profit or non-profit) preserve traditional rights and protections afforded to public housing tenants. These rights include basic affordability restrictions and other key benefits that make public housing especially valuable to low-income tenants.

These rights also include legal benefits that only governmental actors would be traditionally required to provide. These rules derive from the Constitution and from democratic principles promoting an engaged citizenry. Congress has mandated, for example, that private landlords abide by Constitutional due process and consult with residents before making certain decisions about their housing.

Congressional intent has been quite clearly stated. All units under the HOPE VI and Choice Neighborhoods programs must be “developed, operated, and maintained in accordance with the requirements of the Act relating to public housing,” and under both RAD programs, “tenants...shall, at a minimum, maintain the same rights...as those provided under section 6 and 9 of the Act,” which address certain security-in-tenancy and participation protections. A host of statutory, regulatory, and administrative declarations further elaborate upon these protections, which are in turn made applicable to private owners via contract.

Despite Congressional intent, the legal infrastructure to monitor and enforce them is extremely weak. It is difficult to provide empirical data on the scope of the problem precisely because there is no systematic monitoring or enforcement system. These concerns are documented, however, by numerous case studies published in law journals and other fora, as well as by anecdotal research, including consultations with lawyers across the nation who represent tenants experiencing privatization under the RAD program.

This research supports concerns that some tenants today are experiencing great difficulty in obtaining information about privatization plans and implementation, echoing similar experiences under the HOPE VI program. It also reflects concerns that tenants are not benefiting from other rights promised under the law.
Rights In Detail: A Sample Story

Some of the most valuable benefits of public housing include security in tenancy rights, and rights to participate in governance and policy-making. A hypothetical narrative offers a backdrop for discussing the nature of these benefits, their origins, and their importance.

Imagine a faded complex of garden-style apartments, one or two stories in height and set around a spare courtyard. The building has continuously been owned and operated by the local housing agency as public housing since it was built many decades ago. Years of federal funding shortfalls have led to deferred maintenance, and the building is in dire need of major capital repairs.

Assume that this particular community reflects national averages for the public housing population at large. Seven out of eight residents are elderly, disabled, and/or responsible for small children. The average household income is $13,724, even though wages are a major source of income for 28% of households. Only twelve percent of households depend on welfare as a major source of income.

The residents recently elected representatives to the building’s resident council, which under federal law has the right to consult with the local agency as to how their housing is run. The residents elected Mrs. J to the council, along with other leaders who have been active in complaining to the landlord about the building’s persistent mice, bedbug, and cockroach infestations. Mrs. J and the other council representatives plan to use their positions to advocate for better housing conditions.

The complex is selected to participate in a privatization program, which means that its federal funding stream can be supplemented with other kinds of financing. Agency staff has no expertise in complex real estate finance matters, so it hires a private real estate developer (who may be a for-profit or a non-profit) to assemble a financing package and oversee renovations.

The government’s interest in the property makes it relatively attractive to private-sector banks and investors. The developer successfully arranges for a commercial bank loan to fund capital needs, which the bank secures through a mortgage. The company also raises equity through the tax credit program, through which investors contribute funds for renovations in exchange for significant tax savings.

To meet tax credit requirements, title to the building is transferred to a company controlled by the real estate developer. To safeguard their investment, the investors and the bank demand that the company be run by people with sophisticated knowledge of the tax credit program. Since agency staff cannot fill that role, the real estate developer assumes a controlling interest in the company that owns the building. It also hires an affiliated company to manage the building’s day-to-day operations, such as addressing routine maintenance needs, collecting rents, and handling evictions.

All residents have the opportunity under federal law to return to the building after renovations, and all do. They find that the roof leaks less and cosmetic repairs have been done, but also that the vermin have returned. Residents continue to lobby for better conditions, and just as the leases of Mrs. J and other resident council members are about to expire, each receives a notice that his or her lease will not be renewed.

According to the landlord, Mrs. J has repeatedly failed to pay her rent on time. Other council members are accused of disturbing other residents and failing to keep guests from writing graffiti. Mrs. J and the other resident leaders dispute these allegations and believe that the landlord is refusing to renew their leases in retaliation for their activism.

Since Mrs. J is disabled, suffers from a range of health problems, and has limited daily mobility, she...
is panicked that she has only thirty days to find alternative housing that is affordable, close to medical, transportation, and social services, and close to her daughter, on whom she relies a great deal.

This brief narrative illustrates a number of concepts. It describes how a public housing complex might typically transition from governmental ownership and management to private control under either a for-profit or a non-profit. It also illustrates certain protections commonly afforded to public housing residents and that are intended to be preserved as the housing becomes privatized. These protections can be categorized into two broad groups, referred to as “security-in-tenancy” protections and “participation rights.”

Rights to Security-In-Tenancy

Security-in-tenancy protections are legal assurances that a person may remain in her housing for the foreseeable future if she abides by the rules. In short, security in tenancy means that a person cannot be forced to vacate her housing unless good cause exists for terminating the tenancy, and these protections provide stability and reassurance that the resident will not lose shelter through no fault of her own.

Security in tenancy protections offer both functional and emotional benefits. They guard against involuntary ejection from one’s home and the disruption of one’s social networks, daily functions, and emotional well-being. These protections are especially important for those who are disabled, elderly, or have children, who collectively make up eighty-seven percent of the public housing population, and for individuals who are otherwise “hard to house,” who face challenges in finding replacement housing that is affordable, accommodates their physical needs, and is convenient to essential medical, educational, and social services. For many who live in public housing, security in their tenancy is not a mere convenience, but a critical safeguard against homelessness and against the harshness of private lease law.

Security-in-tenancy rights come in various forms, including rights to continued occupancy, grievance procedures, and the right to return.

1. Continued Occupancy

Assume momentarily that Mrs. J lives in a private rental building that does not participate in any federal housing program. Mrs. J could go to court to disprove the landlord’s allegation that she did not pay her rent, since all states require a court hearing prior to eviction. Most states also offer a statutory protection against retaliatory eviction. Even if she is successful in the courtroom, however, Mrs. J would not secure a right to renew her lease. A tenant in private housing simply has no right to continued occupancy; a private landlord may decline to re-let a unit when the lease term ends without cause and for any reason that is not illegally discriminatory.

Fortunately for Mrs. J, because she lives in public housing, she does have a legal right to continued occupancy. A public housing landlord must renew the lease to the current resident unless it has good cause not to do so. The right to continued occupancy derives from Constitutional due process requirements established during the “due process revolution” of the early 1970s.

In Goldberg v. Kelly, the Supreme Court established that welfare benefits could not be terminated without due process under the Fourteenth Amendment. Goldberg was explicitly applied to public
housing by the Second Circuit in Escalera v. New York City Housing Authority, which held that under the Fourteenth Amendment, public housing benefits could not be terminated without adequate procedural safeguards, including good cause. The Fourth Circuit in Caulder v. Durham Housing Authority further determined that Goldberg’s protections expressly apply to public housing.

Moreover, the Fourth Circuit found that a resident’s property interest extends beyond the initial term of the lease in Joy v. Daniels, holding that a contractual end to the tenancy is overridden by due process requirements, which demand good cause for declining to renew a public housing lease upon expiration. Joy’s holding is now echoed in federal regulations.

2. Grievance Procedures

Another security-in-tenancy benefit is the opportunity to grieve nearly any adverse act taken by one’s landlord. Grievance procedures provide a forum for dispute resolution that is more flexible and accessible than judicial proceedings and thus offer public housing residents greater security against eviction and other adverse events.

Grievance procedures offer both informal discussions as well as a more formal hearing. Mrs. J, for example, has the legal right to first speak informally with her housing manager about her alleged nonpayment of rent. If the landlord does not change course, Mrs. J can then appeal the outcome of the meeting through a more formal hearing, administered by an “impartial” person selected in accordance with a process approved by the residents.

Mrs. J has the right to have a lawyer or other representative at the hearing, at which she can examine the rules and regulations, examine records allegedly showing her nonpayment, cross-examine the staff person to whom she handed her check every month, and present her bank records to refute the landlord’s grounds for eviction.

She could also describe her activism efforts, as well as the landlord’s refusal to renew the leases of other resident activists and call witnesses to support her theory of retaliation. Both the informal and formal processes must be documented in writing, and the decision of the hearing officer is binding on the landlord. If Mrs. J remains unsatisfied, she can still pursue a court action.

As the narrative illustrates, one benefit of grievance procedures is access to convenient, low-cost avenues for dispute resolution prior to eviction and other adverse housing actions. The procedures offer third-party adjudication in a setting that does not require legal expertise, since rules of evidence, standing requirements, and other technical courtroom requirements do not apply. Grievance processes can be used to facilitate dispute resolution without the time, cost, legal expertise, and emotional toll of court proceedings, and participants are free to negotiate creative and flexible remedies that suit their particular circumstances.

A further benefit is that a resident may confront a manager with a broader range of concerns than a court proceeding might entertain. Residents can grieve not only evictions but virtually any adverse action or inaction by the landlord. Grievances thus provide a forum for working out a broad array of landlord/tenant conflicts, not just those presenting a legally cognizable cause of action.

Grievance rights derive from Constitutional due process rights articulated during the due process revolution. In Thorpe v. Housing Authority, a resident was evicted immediately after being elected as president of a resident organization. Before the U.S. Supreme Court could confront the First
Amendment concern, HUD issued administrative guidance requiring procedural due process hearings much like those required in Goldberg, which were then refined through negotiations among HUD, legal advocates for residents, and a group of local housing agencies. The principle that grievance procedures can be invoked with respect to any adverse action, not just evictions, also derives from procedural due process. Escalera, applying Goldberg, held that grievance procedures are triggered by the assessment of minor fines against residents, establishing residents' right to invoke grievances to address a wide range of issues. The principles of Thorpe and Escalera set forth the basic infrastructure for today's grievance procedures and are now codified by statute.

3. The Right to Return

In the hypothetical narrative, Mrs. J also benefited from a security-in-tenancy benefit known as "the right to return." The right to return means that residents who are displaced due to renovations must be offered an opportunity to move back into the refurbished housing. Unique to public housing, this right is one of its most sought-after benefits, and recent privatization programs offer a nearly universal right to return.

The right to return resonates strongly among public housing and other low-income communities in part because of a long history of their displacement by governmental programs supporting activities such as urban renewal and the construction of highway and sports stadia. Early public housing privatization initiatives are part of this history. HOPE VI's "mixed-income" policy displaced thousands of low-income black residents who could not return to the renovated sites because much of the new housing was reserved for higher-income, often white, residents. Private landlords imposed stricter screening requirements for the renovated units, further excluding many former residents from returning. Those displaced often lacked adequate support in finding replacement housing and adjusting to the loss of their homes, social networks, and services such as familiar schools, doctors, and transportation lines.

With no federally guaranteed right to return, residents at HOPE VI sites around the country protested strenuously to secure the right at the local level, and advocates fought for decades for a change in federal policy.

The intensity of these battles reflects the importance of the right to return, as does its reinstatement in later privatization programs, namely, the Choice Neighborhoods and RAD programs.

Participation Rights: Rights To Be Informed and To Be Heard

Benefits available to public housing residents also include participation rights, or rights to provide input to one's landlord on matters that affects one's living conditions.

Participation rights have roots in principles of due process, although today's participation rights extend well beyond Constitutional minimums. For example, Mrs. J's resident council must be "recognized" by the public housing agency under federal requirements, which qualifies it for funding for education, training, and other activities supporting resident involvement in the governance of their housing. Public housing rules also encourage the establishment of formal channels of communication with agency officials. Residents have formal notice-and-comment rights with respect to plans to sell, renovate, or privatize their housing and with respect to proposed changes in lease terms, rent requirements, and house rules. Residents are also entitled to fill one seat on the local agency's board.
of directors.\textsuperscript{59}

Mrs. J and her fellow residents might well benefit from these types of participation rights. They might use their funding to support community organizing trainings and protests against the evictions of the resident leaders.\textsuperscript{60} The resident council could employ its federally-mandated channels of communication with agency officials to publicize the retaliatory evictions.\textsuperscript{51}

Participation rights must be viewed with some skepticism, as they provide only for communication between residents and decision-makers, and do not guarantee residents any control or power over decisions.\textsuperscript{52} Residents’ bargaining power in such settings is often limited by race, their status as beneficiaries, and a lack of traditional markers of credibility such as education. Nevertheless, participation rights remain valuable, as they can increase residents’ collective negotiating power in advocating for better housing conditions.\textsuperscript{61} Rights to federal funding and to information disclosure are especially useful in facilitating resident mobilization and collective action to promote change.\textsuperscript{62}

\textbf{Rights At Risk: No Effective Monitoring Or Enforcement}

Despite Congressional intent to preserve these rights, and the existence of legislative, regulatory, and contractual mandates to do so, there are critical weaknesses in the existing accountability framework.

\begin{enumerate}
\item \textbf{Federal Monitoring Is Inadequate}

Current monitoring schemes seem highly unlikely to uncover potential rights violations simply because they do not ask about them.

HUD possesses broad monitoring authority, yet it collects practically no information about security-in-tenancy and participation rights.\textsuperscript{63} HUD is statutorily required to evaluate whether local housing authorities have provided participation opportunities for residents,\textsuperscript{64} but HUD’s assessment tool simply does not evaluate this factor. Security-in-tenancy rights receive even less attention, and are simply absent from the statutory list of what HUD must monitor.\textsuperscript{65}

In another example, HUD assesses performance under one program with respect to eight compliance categories.\textsuperscript{66} Four categories address financial and administrative concerns, and three assess whether the landlord filled out required reports.\textsuperscript{67} Of the hundreds of questions asked, not a single one inquires into security-in-tenancy or participation rights. At best, these rights might be covered under the generic category of “resident complaints” concerning “non-life-threatening conditions.”\textsuperscript{68}

HUD’s systemic monitoring efforts are supplemented by the administrative complaint process,\textsuperscript{69} which enables residents to initiate complaints, but lacks regulations or guidance explaining how they may do so,\textsuperscript{70} and leaves it to HUD’s discretion whether to respond or not.\textsuperscript{71} Even in one program in which participation rights are singled out for monitoring and enforcement, HUD’s responsiveness to complaints is reportedly inconsistent.\textsuperscript{72}

\item \textbf{Federal Enforcement Mechanism Are Inadequate}

HUD can theoretically exercise a range of contractual remedies against private landlords, including termination,\textsuperscript{73} and HUD may generally exercise any permissible remedy against a private owner.\textsuperscript{74}
However, HUD cannot be compelled to act, and even if it does, significant challenges exist to the effective exercise of remedies.

Three specific remedies are repeatedly emphasized in privatization contracts. One is that HUD may petition a court for specific performance or an injunction. Court action is likely to be too costly to pursue, however, except where violations are repeated and egregious.

A second remedy is the reduction or termination of subsidies, which poses obvious risks. Since HUD is in a collaborative relationship with private actors and relies on them to provide services, it may shy away from enforcing in this manner. Moreover, a landlord penalized by a reduction in subsidy may simply further spend less on services rather than sacrifice profit. Severe fiscal sanctions may even threaten the project’s financial viability, leading to a bankruptcy, workout, or foreclosure process that could displace residents and jeopardize long-term affordability. Subsidy-reduction sanctions are so risky that residents have occasionally filed suit to prevent HUD from exercising this remedy.

The third contractual remedy is to remove the housing asset from the contractor’s control and to place it into the hands of either a court-appointed receiver or the enforcing agency itself. This remedy poses logistical challenges of identifying a receiver capable of both administering a complex array of public housing requirements and implementing widespread organizational change that will endure once the receivership ends. Receivers have been appointed by HUD over local agencies in the past with success, although instituting a receivership is exponentially more complicated in a privatized context.

Receivers must be identified who have expertise in both complex real estate financing matters and in public housing administration, and investors and lenders may well object to ceding control over their investment and seek to block the appointment.

In sum, strong contractual remedies exist, but face such steep implementation challenges that they are likely to be exercised only when violations are especially egregious. In the vast majority of situations, these remedies may be too risky or costly.

Less severe remedies also exist, although they are not explicitly articulated in the contracts. HUD commonly employs intermediate-level sanctions against poor-performing local agencies, which it conceivably might also apply to private landlords. For example, HUD might require a local agency to increase its reporting, meet certain performance standards within specified timelines, and require attendance at trainings. Such soft incentives may spur change at local agencies, since HUD programs are often the agency’s sole mission and HUD funds are often their sole source of income. Private landlords, on the other hand, may be less reliant on HUD and thus less susceptible to indirect HUD pressure.

Other intermediate-level sanctions are equally unlikely to be effective against private landlords. For example, when dealing with a poorly-performing local agency, HUD might prohibit the agency from taking on new financial commitments, require it to submit any new business contracts with outside parties to HUD for approval, and impose third-party oversight of certain aspects of the agency’s operations. It is unlikely that HUD would inject itself so intrusively into private-sector business dealings, however, and equally unlikely that private landlords would readily submit to such intrusions.
3. Resident Enforcement Through Participation Is Inadequate

While participation rights, if well-enforced, could provide another avenue through which residents could force private landlords to respect their rights, their potency is limited in the privatized setting.

A key benefit of participation rights is that they provide formal channels of communication between a local agency and resident representatives, such as through the resident council and the residents' seat on the agency's board of directors. If Mrs. J lived in conventional public housing, she could potentially use these channels to challenge the manager's systemic eviction of resident leaders, using her position on the resident council to make agency supervisors and the board of directors aware of the manager's actions. The agency, as the manager's employer, would be in a position to terminate or sanction the manager for her bad acts.

Where landlords and managers are employed by private companies, however, agency staff wields only attenuated control over their behavior. An agency cannot fire, sanction, or threaten to fire the individual, but can only seek to pressure the private company to take action against her. Thus, the lines of communication between residents and local agency officials may be significantly less likely, in a privatized setting, to improve how residents are treated.

Private ownership also dilutes the power of participation rights in other ways. Participation rights include legal rights to information, which is frequently useful in catalyzing mobilization efforts, through which residents act collectively to exert pressure on the landlord to change its behavior.

Privatization, however, means that control over individual housing projects is no longer centralized in the local agency, but dispersed among numerous private landlords. This diversity of ownership may make it more challenging to mobilize a sufficient number of residents against any one landlord. Unlike government landlords, private landlords are also generally not subject to sunshine laws and may shield their principals, as private citizens, from becoming the objects of public protests.

Moreover, while community organizing and other mobilization activities may be protected in conventional public housing under the First Amendment, such speech rights have not explicitly been publicized and may not be protected in privatized public housing.

4. Market-Like Enforcement Is Inadequate

Finally, it might be argued that private landlords will voluntarily offer enhanced benefits in order to more effectively compete for tenants. In this view, if tenants value the benefits, they will seek out landlords who offer them and reject those that do not, and thus the profit-motive will encourage landlords to provide public housing benefits.

The flaw in this argument is that competition for tenant dollars does not exist in the public housing sector, since low-income tenants have few or no alternative housing options and little or no ability to reject landlords who provide unsatisfactory service.

As Wendy Netter Epstein explains, systemic market failures exist in the realm of public-private contracting, including a lack of competition, which lead to contracts that do not internalize the full costs of providing public services and causes beneficiaries to bear the excess cost in the form of poor service.
Potential Avenues for Improved Rights Monitoring and Enforcement

Potential options for more effectively enforcing rights may include: adding an explicit legislative mandate that HUD must monitor and enforce rights; adding transparency requirements for open meetings, direct channels of communication with housing providers, and comprehensive disclosure of privatization plans and how tenants will be affected; collecting and publishing data that can be used to assess whether providers are performing, such as data collected through surveys, site visits, HUD and tenant reviews, and records of grievances and administrative complaints; and providing tenants broader legal rights to initiate investigations and enforcement actions.

PRIVATIZATION RAISES AFFORDABILITY CONCERNS

All housing programs must consider fundamental questions of who should be housed and how affordable the housing should be. Public housing rent payments have long been capped at 30% of income, with all new admissions reserved for people earning 80% or less of area median income and 40% of admissions further reserved for those earning 30% or less of area median income. Thus, federal policy reserves much of public housing for the extremely poor.

Genuine concerns exist, however, about whether privatized housing will remain accessible to those least likely to be able to secure other forms of housing.

First, under RAD, residents may need to pay more of their limited income toward rent. A fast-food cook in Memphis with one child who earns $15,000 annually and pays no taxes might, after paying rent for a conventional public housing unit, have approximately $28 dollars per day remaining to cover all other living expenses. Even a small rent increase may be too great to bear for residents in such circumstances.

Second, insufficient funding may cause pressure to raise rents, which may be done using legal waiver authority available under RAD or the Moving to Work Program.

Third, the longevity of affordability is a concern. In RAD, the affordability period is already shorter than that of other public housing, and owners may exit the public housing program once their contractual obligations end. They may even deliberately breach their contracts with the goal of escaping from their public housing obligations before the contract term expires, which they may be tempted to do if converting the property to a market-rate use will be more profitable. Notably, RAD imposes significantly lighter affordability restrictions in case of a breach or foreclosure than do the HOPE VI or Choice Neighborhoods Programs.

Fourth, other serious concerns exist about whether privatized public housing is as “permanently” affordable as conventional public housing. Some measures have been put in place towards this end: for example, federal approval is required to sell or close privatized housing and to lift affordability restrictions before the contract term expires, and some local agencies also retain property rights enabling them to take back possession of the property once the contract with the private landlord expires, which provides a potential path to long-term preservation. However, none of these measures are meaningful unless the necessary funding is available to sustain the program.
PRIVATIZATION RAISES ACCESS CONCERNS

In at least some cases, privatization has increased the use of tools that make it harder to get into, and stay in, public housing. Private landlords may use their discretion to set admissions criteria that will bar many otherwise-eligible individuals from the housing. Owners generally must admit all who qualify under federal and local standards, but they also retain the right to screen for such things as credit checks, alcohol abuse, "poor housekeeping" skills, prior landlord references, and eviction and rent payment history, among other things.

Such standards can bar access to public housing for those that are least able to secure other shelter, and who therefore are more likely to rely on public housing to avoid homelessness. The Urban Institute classified at least 40% of residents at five Chicago sites as "hard to house," meaning that their ability to find suitable shelter outside of the public housing program was severely restricted due to low income and other factors, such as lack of a high school degree or involvement with the criminal justice system. Another study found that Chicago residents reported a "stunning" frequency of health problems that turn simple daily living activities into challenges.

The concern is that private landlords may exercise their screening discretion in ways that bar such individuals from accessing public housing. Selective admission of "easy" tenants who may consume fewer resources, along with the aggressive eviction of residents viewed as more challenging, is popularly known as "creaming." Even governmental landlords engage in creaming, and non-profit providers may be also be incentivized to cream, especially if funding is scarce.

Creaming by private landlords under the HOPE VI program drew national criticism. RAD corrects some of the problems experienced under HOPE VI by guaranteeing that current residents will not undergo heightened screening standards in order to be re-admitted. However, future applicants who are hard-to-house are likely to be screened out. Moreover, all suffer a higher risk of eviction.

A final concern is that these exclusionary tools frequently prioritize reforming personal behavior as a primary cure for poverty, and underemphasize the need to address structural causes of poverty.

Thank you very much for the opportunity to discuss these matters.

1. National Housing Federation, Briefing: Regulatory Framework from 1 April 2012, at 6-10.
5. 42 U.S.C. § 1437d-7(b)(1)(2010). The statute further clarifies that any statutory reference to "public housing" includes privately-owned units assisted by alternative financing, such as those developed under the low-income housing tax credit equity. 42 U.S.C. §§ 1437z-7(2010) & (1)(2010).
7. For example, the requirement to renew a lease unless there is good cause is further explained in detail in a HUD notice concerning the RAD program, in certain standardized lease forms drafted by HUD and required to be used by private owners, in regulations, and in agency guidance materials. See U.S. Dep't of HUD, & Urban Dev., RAD-2012-32 [EA], RENTAL ASSISTANCE DEMONSTRATION- FNL IMPLEMENTATION REVISION 1, at 47-48 (July 2013), available at http://porta!.'hud.gov/hudportal/documents/hud/016-2013-0711v1.pdf (hereinafter RAD Notice), 34 C.F.R. §§ 566.64(c)(2) & (2014), U.S. Dep't of HUD, & Urban Dev., PUBL. HOUS. OCCUPANCY GUIDELINE, 138 (June 2013), available at...
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50. See discussion of organizing info.


52. The right to return is not synonymous with a requirement to rebuild every demolished unit (“one-for-one replacement”), although the two concepts are closely aligned. See infra Part III.B. One-for-one replacement, and sometimes the right to return or a preference to return, were negotiated under HOPE VI on a site-by-site basis where the residents were able to demand it through legal action or through organized protests. See, e.g., James Trace, Tenant Organizing Was Win-Win-One Replacement, SHELTERFORCE OnlinE (2005), http://www.shelterforce.org/online/issues/235/organize.htm (San Francisco, Katy Benedikt), Crises Question Whether New Orleans Housing Will Meet Needs, NOLA, http://www.nola.com/news/index.ssf/2008/12/crestis_question_whether_new_s.html (one of New Orleans developments implemented one-for-one replacement at the insistence of residents). Settlements Advance Integration For Public Housing Tenants, Housing Action, https://www.housingaction.org/files/207%20-%20integrazione062012%20wall%20%20%20tone.pdf (discussing litigation settled in Fredonia, Illinois by an agreement guaranteeing one-for-one replacement last visited February 26, 2015).


56. 54 C.F.R. § 964.105(2014).

57. Id. at 18.


59. See supra note 3.

60. 42 C.F.R. § 964.11 (2014).

61. Id.


63. See, e.g., Peter Byrne & Michael Diamond, Affordable Housing, Land Tenure, and Urban Policy: The Market Approach, 34 PEACEWORTH U. L. REV. 1 at 587–90, 595–601 (2007) (participation rights, even if structured, are less effective in the privatized setting, see infra); but the reforms may increase their effectiveness.

64. Mobilization is a fundamental component of the law and ongoing movement, which suggests that lawyers focus on supporting community mobilization in order to effectuate social reform. See, e.g., Scott L. Cummings & Ingrid V. Eyley, A Critical Reflection on Law and Organizing, 88 U. TEX. L. REV. 443 (2010). For a sample of discussions of participation and organizing in public housing, see Alexander, supra note 53; see also Promstein, supra note 53, at 671–72; Schmidt, supra note 21, at 334, 349–50.


68. While HUD may choose to include these items in its monitoring, it has not done so. See 42 U.S.C. § 1437d(1)(E)(1)(2014) (allowing the section to include any other evaluative factors that it deems appropriate); see also generally Public Housing Evaluation & Oversight: Changes in the Public Housing Assessment System (PHAS) and Determining and Removing Substantial Deficit, 76 Fed. Reg. 36 (Feb. 23, 2011), see also 49 C.F.R. § 24.15 (reports on violations and displacement activities can only be required every three years unless for good cause).

69. Id.


71. PHAS ACC, §§ 3.1 & 3.5. Civil rights laws that cover similar grounds, but are doctrinally distinct, do receive slightly more attention under...
the required reports.

72. National Housing Law Project, MUD Housing Programs, supra note 39, § 11.2.2.

73. Id.

74. Id.

75. National Housing Law Project, MUD Housing Programs, supra note 39, at 487.

76. As discussed, HUD generally has contractual rights directly against a private landlord, and can also indirectly enforce by demanding that the local agency enforce its contracts against the owner. For simplicity, the discussion in the text does not distinguish between direct and indirect enforcement, although as a practical matter indirect enforcement would present additional challenges since HUD would need to successfully coerce the local agency into action, and the local agency would also need to coerce the private contractor.


83. The local agency can act against the owner by demanding specific performance or seeking an injunction; seeking to recover funds from the owner; reducing future subsidy payments; or terminating the subsidy contract, and in many Financial HOPE VI and Choice neighborhood projects, by taking possession of the property or appointing a receiver to take control of the project. See Model Form Regulatory and Operating Agreement, at 16, Mixed-Finance Amendment, at 12, PBRA ACC, at 12, 14–16, PBRA MAP Contract Part 2, § 2.11; PBV MAP Contract Part 2, § 15. HUD can demand that agency take any such actions, and if agency fails to enforce, HUD can exercise its own remedies against the local agency, including terminating the subsidy (which passes from HUD to the agency, appointing a receiver to manage the agency, or taking over the building itself and assigning the contract between the local agency and the private owner. See, e.g., 24 U.S.C. § 1437d (2014) (requiring the local agency to convey title or possession of a project if the local agency is a substantial default). ACC, § 573(E) & (F); PBRA ACC, at 12, 24 C.F.R. §§ 500.501, 500.505; U.S. Dep’t of Hous. & Urban Dev., HUD-56925, Rental Assistance Demonstration Use Agreement, ¶ 12, available at http://portal.hud.gov/hudportals/director/documents/hood/968.335.doc [hereinafter RAD Use Agreement].


85. The contractual receivership remedy today is essentially the same as that stated over forty years ago in contracts between HUD and the local agencies. See, Remedies for Tenants in Substandard Public Housing, supra note 334.

86. Receiverships instituted by a first-party lender are not uncommon in commercial real estate practices, see Gregory O. May et al., Receiverships: An Additional Tool for Dealing with Commercial Real Estate Loan Defaults, ACC Doc’t (November 2011), available at http://aimco.com/legalresources/resourcefiles/html/1295508, but in this context, the lenders are often not in default and the remedies available are limited. There is precedent for government-instituted receiverships over private housing. See Guardian Elevator Co. v. United States, 50 Fed. Cl. 5770 (2001); James J. Kelly Jr., Refocusing the Heart of the City: Vacant Building Receivership: A Tool for Neighborhood Revitalization and Community Empowerment, 13 J. AUST. Hous. & Urb. Dev. L. 210, 217 (2004) (noting that the City of Baltimore may ask for a court-ordered receivership of a property with an outstanding vacate building violation record, at 217 n.32) (noting that Ohio, Rhode Island, and Missouri have similar statutes).

87. Corrective action plans are often imposed before more drastic remedies described supra are implemented. See, e.g., 24 C.F.R. § 900.73 (2014) (stating that corrective action plans may be implemented if a local agency performs poorly in standardized HUD requirements); 24 C.F.R. § 900.335 (reserved by 78 FR 63799) (failure to conform to requirements related to certain public housing grant funds may subject a local agency to a corrective action plan); OMB Circular No. A-133, Audits of State, Local Governments, and Non-Profit Organizations, Office of Management & Budget, available at http://www.whitehouse.gov/sites/default/files/microsites/omb/budget/compliance/a133atf04-106-0880-504538-333-pdf (noting that federal grantees may be subject to corrective action plans to correct deficiencies found in audits).

88. See, e.g., 24 C.F.R. § 902.75 (2014).

89. See e.g., Corrective Action Plan for Section 8 Housing Choice Voucher Program (May 18, 2018), http://www.vhbcirksia.co/section8housingchoicevouchers/20180518correctiveactionplan.pdf

Restructuring a corrective action plan imposed on a local agency (last visited April 29, 2019).

90. See, e.g., 24 C.F.R. § 900.335 (reserved by 78 FR 63799).


93. When Hope Falls Short, supra note 33, at 947–58.

94. Smolik, supra note 33, at 1983–84.

RESTRICTIVE COVENANTS

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101. 99. 42 U.S.C. § 1437g(a)(6)(B), although screening is constrained by antirestiction laws and notice-and-comment procedures. Current residents, however, have little incentive to object through notice-and-comment procedures to heightened screening standards for others, and may in antidiscrimination laws and notice-and-comment procedures.

100. 95. Wendy Netter Epstein, RAD Appropriations, supra note 91, at 2211 (discussing frequent shifts in policy over who should live in public housing).


98. Hendrickson, supra note 39, at 39–43 (discussing frequent shifts in policy over who should live in public housing).


96. In 2013, the United States had 1.5 million extremely low-income households, but only 3.1 million affordable, available rental units.

95. The RAD appropriation is a mandatory one-time contract renewal extending the initial term to thirty or forty years. In contrast, conventional, HOPE VI, and Choice units generally have 50-year terms. 42 U.S.C. § 1437g(b)(3)(A) & (B) (2008).

94. In 2013, the United States had 1.5 million extremely low-income households, but only 3.1 million affordable, available rental units.

93. Contrary to conventional, Choice units, where the landlord has discretion over who is admitted to the property, in the HOPE VI program, the government is the landlord -- the U.S. Department of Housing and Urban Development (HUD). See 42 U.S.C. § 1437g(a)(6)(B), although screening is constrained by antirestiction laws and notice-and-comment procedures. Current residents, however, have little incentive to object through notice-and-comment procedures to heightened screening standards for others, and may in fact have reasons to support them.


91. HUD Appropriations, supra note 6.

90. See Bieder, D1ane K Levy, and Hendrickson, supra note 39, at 39–43 (discussing frequent shifts in policy over who should live in public housing).

89. In 2013, the United States had 1.5 million extremely low-income households, but only 3.1 million affordable, available rental units.

88. See Barry M. Popkin, Down From Bureaucracy: The Ambiguity of Privatization and Empowerment, supra note 91, at 2211 (discussing frequent shifts in policy over who should live in public housing).


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Testimony of

Dr. Susan J. Popkin
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before the
Committee on Financial Services, Subcommittee on Housing and Insurance
U.S. House of Representatives

The Future of Housing in America: A Comparison of the United Kingdom and the United States Models for Affordable Housing

Thursday, May 12, 2016

The views expressed are those of the author and should not be attributed to the Urban Institute, its trustees, or its funders.
Mr. Chairman and members of the Committee, thank you for inviting me to appear here today for this hearing on “The Future of Housing in America: A Comparison of the United Kingdom and the United States.” The views I express are my own and should not be attributed to the Urban Institute, its trustees, or its funders.

For the past 30 years, I have been researching how federal and local housing programs affect the lives of the most vulnerable low-income families. In particular, I have focused on how public housing transformation has affected residents, through place-based revitalization efforts like HOPE VI and the Choice Neighborhoods Initiative and the expansion of the Housing Choice Voucher program. In addition, my colleague Dr. Harris Beider and I have conducted two research projects comparing housing and redevelopment initiatives in the United States and the UK (Beider, Levy, and Popkin 2009; Levy et al. 2010). My testimony will focus on the US housing system, including two major differences from the UK system, a review of some efforts to transform the system, and the implications for moving forward with housing policy in the United States.

The United States and the UK share some similar challenges: rising rental housing prices, rapid demographic changes, and aging public-sector housing stock in need of massive and costly revitalization and redevelopment. Both countries have tried similar approaches to revitalization: replacing distressed, high-crime properties with new mixed-income, mixed-tenure housing that also includes some on-site supportive services for residents. And both countries have a nonprofit housing sector that has developed new, high-quality affordable housing for low-income households. However, there are also fundamental differences between the two countries’ housing systems and markets. First, housing in the UK is an entitlement and a fundamental part of the safety net; as the Housing Partnership Network notes (Ellis and Siglin 2016), this entitlement benefit has provided a critical part of the funding for social housing organizations to develop affordable housing. Second, the UK does not have the same legacy of racial segregation and discrimination that has meant that so much of the US’s federally subsidized housing stock is located in predominantly minority, chronically disadvantaged high-crime neighborhoods (Turner, Popkin, and Rawlings 2009; HUD 2015).

**US Housing System**

Because housing is an entitlement in the UK, a far larger proportion of low-income households receive housing benefits and live in social housing. In the United States, federal assistance includes deeply subsidized rental housing developments, some of which offer an array of supportive services for their residents; housing vouchers for very low income renters, along with modest incentives for families to use these vouchers to gain access to housing in opportunity-rich neighborhoods; and
funding to support local efforts that provide emergency shelter, transitional housing, rapid rehousing, and supportive services to individuals and families who experience homelessness.

Research indicates that this portfolio of programs yields important benefits for many of the households who participate and that the incidence of homelessness and housing hardship would be far higher in HUD’s absence. But housing assistance is not an entitlement, and the scale of these programs falls woefully short of needs (Turner, Cunningham, and Popkin 2015). Just one in four eligible households—about 5 million—receives any assistance (Joint Center for Housing Studies 2014); as a consequence, growing numbers of low-income households face severe housing problems, and family homelessness is a persistent problem.

The stock of federally subsidized housing in the United States has shrunk over time for various reasons. Beginning in 1992, the HOPE VI program funded the demolition and redevelopment of distressed developments. HOPE VI produced important improvements in housing quality, community conditions, and resident well-being (Popkin et al. 2004). But generally, it produced fewer new public housing units than were torn down (replacing them with portable housing vouchers). Other initiatives have allowed the demolition or sale of other deteriorated projects, significantly reducing the total stock of public housing units.

In addition to public housing, the United States has long had privately owned federally subsidized housing through the Project-Based Section 8 program, but this housing stock has also shrunk over time. Almost no units have been added since the early 1980s, but units are being removed from this inventory as owners “opt out” of the program when their subsidy contracts expire. Owners may have especially strong financial incentives to let their subsidy commitments expire in markets where property values are rising or the surrounding neighborhood is in particular demand.

The Low Income Housing Tax Credit (LIHTC) subsidizes the production of rental housing at below-market rent levels. These properties are often developed by nonprofit housing developers, akin to the housing associations in the UK (Ellis and Siglin 2016). Rents for these units must be set at levels that are deemed affordable for households with moderately low income levels for the local area, and the units are set aside for residents at or below this income ceiling. But the LIHTC program does not require (nor does it provide sufficient subsidies to allow) rents to be capped at 30 percent of a particular resident’s income, so these units do not generally serve the same deeply poor population as depend on federal housing subsidies.

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1 Production under most of these programs was terminated during the early years of the Reagan administration. A very small number of projects earmarked for the elderly and disabled has been funded since.
Finally, the US Department of Housing and Urban Development’s (HUD’s) portfolio includes the Housing Choice Voucher program, which allows families to rent homes and apartments on the private market. The voucher program (originally called Section 8 certificates) dates back to the 1970s and was explicitly designed to shift housing provision to the private sector. As in federally subsidized rental developments, a family contributes 30 percent of its monthly income toward rent, and the federal government pays the rest, up to maximum pegged to local market conditions. Vouchers, however, are “tenant based” rather than “project based,” allowing the recipient rather than the developer to decide where the low-income household will live (Turner, Cunningham, and Popkin 2015).

The low-income households fortunate enough to receive federal rental assistance clearly benefit from lower housing costs. Among low-income renter households who do not receive federal housing assistance, three-quarters experience one or more housing problems and 42 percent experience severe housing problems—paying more than half their income for rent or living in severely inadequate housing (HUD 2015). Living in decent, affordable housing and paying a lower rent yields other important benefits as well. For example, there is evidence that receipt of housing vouchers reduces the likelihood that poor families will double up or experience homelessness and increases family expenditures for food (Mills et al. 2006). Other research confirms that families receiving housing assistance are able to spend more on food and are less likely to face food insecurity or poor nutrition (Hart Research Associates 2014). And housing cost burdens above 30 percent of income crowd out spending on children’s education enrichment, contributing to lower cognitive achievement among children in cost-burdened families (Newman 2014).

But despite these important benefits, the availability of US federal rental assistance falls far short of needs. As Figure 1 illustrates, the total number of unassisted renter households with overcrowded, physically deficient, or unaffordable housing rose steadily from 1999 through 2009 and much more sharply during the Great Recession, while the availability of rental assistance has remained essentially flat. In 2013, 26.3 million households (65 percent of all renters) had incomes that made them eligible for assistance (below 80 percent of the local median income, adjusted for household size). But fewer than one in five (19.8 percent) actually received assistance. For every 100 low-income households receiving federal rental assistance, another 298 are income-eligible and experience one or more housing problems (crowding, substandard housing, or unaffordable costs). Even among renters with extremely low incomes (below 30 percent of the local median), only 33 percent receive housing assistance (Turner, Popkin, and Rawlings 2015; HUD 2015).

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The fundamental problem is that rents have risen faster than incomes for a growing segment of the workforce in almost every part of the country. In 2011, while only 3 percent of renters lived in overcrowded housing and 8 percent lived in housing that was structurally inadequate, 24 percent were paying from 30 to 50 percent of their income for rent, and another 27 percent were paying more than half their income for rent. The problem of housing affordability is primarily the result of widening income inequality, with incomes rising much more slowly for low- and moderate-wage workers than for those in high-skill, high-wage jobs. Rising incomes at the top of the wage ladder put upward pressure on housing prices and rents, forcing them beyond the reach of workers in lower-wage jobs. The Great Recession exacerbated both the income side and the housing cost side of this problem. Rising unemployment weakened earnings for households at or near the bottom of the income distribution, while the foreclosure crisis and tightened mortgage underwriting standards increased demand for rental housing, forcing rents up in many markets (Joint Center for Housing Studies 2014; Turner, Cunningham, and Popkin 2015).

The gap between ability to pay and rents in the market place is particularly acute for households at the bottom of the income distribution. Specifically, for every 100 extremely low-income renter households in the country (with incomes below 30 percent of the local median), there are only 29 affordable and available rental units. Without HUD rental assistance, that number would drop to only 1 affordable and available rental unit. Matthew Desmond’s new book, Evicted, documents the crisis for very low income renters, who are too often forced to pay as much as 70 to 80 percent of their income for substandard units in the worst neighborhoods. The costs for the

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children growing up in these households are profound: trauma, instability, hunger, and frequent school transfers (Desmond 2016).

Would UK-Style Privatization Address These Challenges?

As noted above, the biggest difference between the US and UK housing systems is that housing in the UK is an entitlement, which affects not only the ability to meet housing need, but also provides a financing stream that helps fund the social housing associations. And, as my overview makes clear, the private sector is already heavily involved in the US housing system through the Project-Based Section 8 program, HOPE VI and Choice Neighborhoods redevelopment initiatives, LIHTC developments, and, most of all, the Housing Choice Voucher program. The basic problem in the United States, then, is not the lack of private-sector involvement, but rather the lack of affordable rental housing and the shortage of housing subsidies to help bridge the gap, especially for the lowest-income households.

The United States and the UK have used similar approaches to addressing the challenges of aging, distressed properties, but even there, the level of investment and the outcomes have been very different (Beider, Levy, and Popkin 2009; Levy et al. 2010). In the United States, the HOPE VI program provided funding to replace many severely distressed public housing developments with much higher quality housing. Much of this housing, mostly mixed-income and mixed-tenure was developed in partnership with private-sector developers, both nonprofit and for-profit. In some cases, this redevelopment effort appears to have contributed to significant improvements in the surrounding neighborhoods, particularly if the new development was located near an area that was experiencing broader revitalization (Turner, Cunningham, and Popkin 2015). However, the biggest criticism of HOPE VI is that these new developments do not serve the lowest income tenants well; the program led to a net loss of deeply subsidized units. Most original residents were relocated to better housing in safer neighborhoods, whether in private housing (with the help of a housing voucher) or in other public housing developments (Popkin, Levy, and Buron 2009). But relatively few original residents returned to the revitalized, mixed-income communities that replaced their previous housing, and the jury is still out on how these communities will perform for their low-income residents over the long term (Crowley 2009; Turner, Popkin, and Rawlings 2009).

In 2010, when the HOPE VI program was succeeded by the Choice Neighborhoods program, the mixed-income redevelopment strategy was extended to privately-owned subsidized developments. Like HOPE VI, Choice provides funding for the rehabilitation or demolition and replacement of distressed subsidized housing projects with higher quality mixed-income developments. And, as in HOPE VI, private-sector developers are using LIHTC funding and other
tools to finance the construction of new, mixed-income housing. Building on lessons learned from HOPE VI, Choice places more emphasis on investments in the surrounding neighborhoods (with an emphasis on safety and schools) and on supports for the original residents. In most cases, Choice also requires one-for-one replacement of subsidized rental housing units and provides stronger protections for residents who want to return to the development after it is revitalized (Pendall et al. 2015).

The Rental Assistance Demonstration (RAD), represents another move to engage the private sector. Launched in 2012, RAD is primarily designed to give public housing agencies new options for financing the modernization and upgrading of subsidized properties, and it is similar to some of the funding options available to housing associations in the UK. RAD also allows residents greater choice about where to live. Specifically, when public housing properties convert to Section 8 subsidy contracts, residents have the right to receive a portable housing voucher and use it to move elsewhere (Turner, Cunningham, and Popkin 2015). Advocates have raised concerns about how RAD will affect the availability of deeply subsidized units over the long term—specifically, whether private-sector owners will feel a financial imperative to convert properties to market-rate housing. The first RAD-financed redevelopments are just getting under way, and it is too soon to tell whether the program will succeed in its aim of preserving affordable housing through increasing access to funds for revitalization and redevelopment or whether, as advocates fear, it will lead to a further loss of subsidized units. HUD has funded an evaluation of RAD, including tracking outcomes for residents, and it will be several years until the results of that research are available.

Although there are similarities in approach, the US and UK experiences in implementing comprehensive redevelopment differs in significant ways. In the UK, the government provided much more generous funding for comprehensive redevelopment efforts, and these efforts were much more likely to include construction of new schools, health centers, and community centers that offered a wide array of supportive services. Residents were more actively engaged in the redevelopment process and in decisions about supportive services. The original resident population also included a broader range of incomes and levels of need.

In contrast, communities targeted for HOPE VI and Choice generally serve only extremely low-income tenants, and funding for resident services is relatively limited. Because of the legacy of segregation and discrimination, US developments also are much more disadvantaged, with high rates of poverty and violent crime, meaning that residents are also more likely to have deep and complex challenges that affect their ability to move toward self-sufficiency (Turner, Popkin and Rawlings 2009).

Not surprisingly, outcomes for residents in the United States have been mixed. The largest study on HOPE VI outcomes for original residents found reductions in anxiety and improvements in
overall well-being, but not on employment or educational outcomes (Popkin, Levy, and Buron 2009). A much more intensive model tested in Chicago that coupled relocation with intensive counseling and transitional jobs programming did lead to gains in employment and physical and mental health for adults, but most sites are not able to offer a comparable service package (Popkin et al. 2013).

It is too early to know whether Choice Neighborhoods, which does include an emphasis on improving schools and other community services, will have a greater impact on residents’ socioeconomic outcomes. However, early assessments of implementation suggest that Choice sites, particularly those centered around privately owned subsidized developments, are facing challenges in delivering services for original residents (Pendall et al. 2015). It is also too early to know how successful these new mixed-income properties will be in serving the needs of the lowest-income tenants over the long run. Recent research has raised concerns about whether these developments will be able to meet the needs of original residents and succeed in building community (Chaskin and Joseph 2015).

Bridge Housing’s Trauma-Informed Community Building is a promising approach to addressing the challenges of serving chronically disadvantaged communities, and one that should receive further attention from low-income housing developers (Weinstein, Wolin and Rose 2014).

Homeownership

Another question before us today is whether a homeownership model like the UK’s Right-to-Buy could succeed in the United States and help subsidized tenants move toward self-sufficiency and/or help bridge the housing affordability gap. The available evidence suggests that this approach will not work well here and, in fact, could place low-income households at greater risk for instability. Right-to-buy in the UK has taken some of the highest-quality units out of the supply of subsidized housing stock; it seems likely that the same could happen in the United States. Right-to-buy is also likely to serve only the most stable, highest-income tenants, those who are able to successfully save funds for a down payment and quality for financing.

In addition, there are US-specific challenges that make such a program unlikely to succeed—and certainly very unlikely to help low-income families build wealth or move toward self-sufficiency. HUD has attempted several programs, including programs that allowed public housing tenants to purchase units and the current Section 8 homeownership program. My colleagues and I have done the only rigorous study on what happens when participants leave housing assistance (Smith et al. 2015), using the Moving to Opportunity database to track households over time. Our findings raise
serious cautions about proceeding with a push toward homeownership. We found that subsidized tenants who transition to homeownership generally end up buying poor-quality stock in the worst neighborhoods, the kinds of places that are unlikely to gain value over time. Many also end up with high-interest, subprime mortgages, leaving them heavily indebted rather than building wealth and increasing stability. Desmond (2016) reports similar findings in his research on Milwaukee. An approach that gradually transitions subsidized tenants to market-rate rents and then possibly homeownership is might be more successful.

**Informing US Housing Policy**

The United States and the UK face similar challenges: rising rents and an aging stock of subsidized housing. Both countries have gradually shifted toward more engagement with the private sector. In the United States, the Housing Choice Voucher provides subsidies for tenants to rent units in the private market; private organizations own and manage deeply subsidized properties through the project-based Section 8 program; private developers have used the LIHTC to build affordable housing and have taken the lead in construction of new, mixed-income, mixed-tenure housing as part of both HOPE VI and Choice Neighborhoods Initiatives. But privatization will not solve the fundamental challenge in the United States: rising inequality and rising rents have created a situation where the need for affordable housing far exceeds the demand, leaving too many households at risk for severe housing cost burdens, instability, and homelessness.

Although many of HUD’s programs have proven their potential to help address these challenges, their scale and capacity falls woefully short of what will inevitably be needed. Ongoing improvements in program implementation—and expanded scale—would be welcome. A more ambitious idea for eliminating homelessness and housing hardship and advancing the potential of assisted housing policy to improve the long-term life-chances of poor and vulnerable populations would actually take us closer to the UK system—bringing us closer to treating housing as an entitlement and an essential part of the safety net. I recognize that implementing these ideas would be both costly and politically challenging but offer them as conversation-starters for HUD’s next 50 years.

*Close the affordable housing gap: entitlement housing vouchers plus shallower, time-limited emergency assistance.* Over the past 50 years, HUD has been instrumental in providing affordable housing for vulnerable people. For those who are lucky enough to receive housing assistance, it clearly makes housing more affordable and stable. But only one in four households who are eligible receives housing assistance. Many refer to federally subsidized rental housing as a lottery system, one that
has clear winners and losers. As a result, the problem of housing affordability is getting worse, not better, and homelessness remains a significant problem.

One way to improve the fairness of federal housing assistance is to target vouchers to households at the bottom of the income distribution and create a different strategy for other low-income renters. The Bipartisan Policy Center’s (BPC) Housing Commission recommends expanding the Housing Choice Voucher Program to guarantee access to all extremely low-income households (incomes below 30 percent of area median; BPC 2013). The BPC estimates that an additional 3.1 million rental subsidies are needed to reach this goal, 258,000 of which are projected to be made available by transitioning families in higher income categories off the program. Extending an entitlement voucher program to households with incomes up to 50 percent of median would obviously raise the cost substantially.4

To complement such a proposal, some have recommended testing a flat, shallow subsidy program that is either time limited or available based on emergencies for other low-income households that would not be eligible for entitlement vouchers (Turner, Cunningham, and Popkin 2015). Such a program could help reduce housing instability and homelessness, but it probably would not enable families to move to high-opportunity neighborhoods. Nonetheless, the combination of an entitlement voucher program and an emergency assistance program for other low-income households would represent a major improvement over today’s assisted housing “lottery.”

Over five decades, HUD has implemented an expanding portfolio of programs for poor and vulnerable households, responding to changing conditions and emerging evidence about what works. Research indicates that this portfolio of programs yields important benefits for many of the households who participate and that the incidence of homelessness and housing hardship would be far higher in their absence. But the scale of these programs falls far short of needs. Privatization alone will not solve these problems; in fact, private developers need resources to be able to effectively serve the poorest households. Without fundamental changes in the scale and scope of assistance, prevailing demographic, social, and economic trends will widen the gap between needs and assistance in the decades ahead.

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4 One possible mechanism for funding such an expansion would be to scale back or reform the federal mortgage interest deduction, which effectively subsidizes the housing costs of high-income homeowners (Toder 2013).
References


Good afternoon Subcommittee Chairman Luetkemeyer and Ranking Member Cleaver, and the Members of the Subcommittee. I am Gregory Russ, Executive Director of the Cambridge Housing Authority (CHA), and I would like to thank you for the opportunity to appear before the committee and testify on affordable housing models in the U.S. and U.K. My testimony will focus primarily on the February 2016 Report titled, Lessons of the International Partnership, provided by the Housing Partnership Network, as referenced in your letter of invitation dated May 4, 2016. (Hereafter the HPN Report.)

The HPN Report makes five policy recommendations. I will provide comments on the policy recommendation from the perspective of a mission oriented, entrepreneurial, public housing agency. CHA strongly identifies with the descriptions of the non-profit institutions in the HPN Report. Using both the flexibilities in the Moving to Work (MTW) and Rental Assistance Demonstrations (RAD), CHA has accelerated its entrepreneurial transformation as a public institution while protecting its families, its units, and its mission.

The HPN Report describes a strong non-profit culture referring to "...institutions that combine deep social mission and strong business acumen" and "a fundamental focus on social purpose and a commitment to reinvesting any financial return into their work" and "high-performing, mission-driven actors". These statements apply to many Housing Authorities around the country and there are some non-profits that might not fit the descriptions. The HPN Report also notes, "Tax status is less important than the hybrid of public-private nature of these enterprises." We believe that any recommendations considered by Congress should be "entity neutral" – there are strengths across both the PHA and non-profit worlds. None of the recommendations in this testimony exclude PHAs from participation.

The existing public housing platform is in need of deep reforms because it places heavy requirements on public agencies that hinder capacity building and choke innovation, this does not mean that it is not a more efficient and effective process than the approach suggested by HPN, which proposes radical solutions where more modest changes, some of which have been made already through existing demonstration programs, could achieve similar results. The current public housing system, including HUD itself, rationalizes structure and process over social outcomes, a particularly poor set of choices in the face of the budget numbers that are provided for our programs.

In thinking about the two systems, U.K. and U.S. it seems useful to consider the key fundamentals that shape our public housing system in the U.S.
PHAs are State-created Agencies – It is important to note that while the Federal government funds public housing the housing authorities are not federal entities, they are State created agencies. The housing authorities, not the Federal Government, own the land and the property. The State law establishes the governance structure and powers of the PHA. None of this is under Federal control. Transferring the assets of public housing authorities to non-profits is not something that can be accomplished by the federal government, as the property is not federal property.

The Declaration of Trust limits the use of the assets – The Federal government originally backed the bonds issued by the local PHA to finance the construction of public housing (and eventually paid them off). To protect this Federal interest HUD attaches restrictions to the property deed, the declaration of trust, requiring the continued use as public housing and limiting debt that can be leveraged by the property. With the declaration restrictions in place the value of the assets held by housing authorities is difficult to liberate, collateralization is at best difficult and often impossible. This approach completely ignores the long-term need for real estate to raise capital to reinvest in the units. This is why RAD removes the Declaration of trust and replaces it with a use agreement that is much friendlier to the private financing world. This is an easy to implement modification to the current system that could provide the means to leverage millions of dollars in private capital.

State enabling legislation already includes significant corporate powers – The contrast between non-profits and housing authorities is not as stark as one might think. The State legislation, in addition to enumerating the social and real estate missions of the Housing Authority, also describes the corporate powers vested by the State in the Authority. Sections of the enabling legislation often read like the incorporation papers of a private company: “... to have a seal; to have corporate succession...to receive loans and grants from any other source public or private... to invest in securities, to... execute and carry out contracts and all other instruments necessary or convenient to exercise the powers granted...” [Massachusetts General Laws Chapter 121B, Sections 11 and 26] The referenced sections of the Massachusetts enabling legislation lists 37 different powers granted to PHAs.

PHAs have adapted to the Tax Credit private equity system – The CHA has created four not-for-profit entities primarily to participate in what is now the only capital investment vehicle of scale available for the preservation of public housing, or the potential creation of new units of low-income housing – the Low Income Housing Tax Credit (LIHTC). To use tax credits, CHA operates through its "wholly owned" non-profit subsidiary entities; these non-profits, in turn, become the managing partners, along with the tax credit investor, in the ownership LLC for each property that is developed or preserved. Any non-profit corporation would also need to implement a similar structure in order to participate in the LIHTC program.
PHAs operate with property budgets insufficient to pay much if any debt – This is a key point. PHAs are easy to target for not fulfilling expectations and “permitting” their assets to deteriorate. One reason the British system worked out reasonably well is the universal Housing Benefit provided to the families was calculated to produce enough income for the Council (and later the Housing Association) such that they could pay off the loan for their part of their development cost that was not covered by the grant from the central government. PHA operating budgets and the subsidies received are insufficient on their own to allow debt payments. This is why RAD combines capital and operating into one source. The slim margins provided by adding the capital to the operating subsidy allow for some debt in the operating budget. (This margin, depending on the unit rehabilitation needs and market cost creates a “sweet spot” which is why RAD works well for some properties but not others.)

I want to emphasize these basic structural issues to the subcommittee because public housing agencies, just like our non-profits friends, have shown great adaptability inside this difficult system of funding. This set of structural considerations affects any comparison of the U.S. and U.K. systems. Further, any comparison of the U.S. and the U.K. must start with the undeniable story that the British central government has been a strong and consistent financial supporter of the affordable housing industry for 80 years.

**HPN Report Recommendations and comments**

1. Expand the Capital Magnet Fund
2. Prioritize preservation and stock transfer to high capacity non-profits (This recommendation also references RAD as sharing some elements with the Large Scale Voluntary Transfers, LSVT, that occurred in the U.K.)
3. Use a portfolio model for multifamily housing preservation
4. Make housing a platform for improving communities and building assets for residents
5. Improve access to affordable homeownership

**Expand the Capital Magnet Fund (CMF)** – The fund competitively awards grants to non-profit lenders, Community Development Financial Institutions (CDFI), and may finance affordable housing activities. This is great recommendation except... eligibility for CDFI status is limited to non-governmental entities (Tribal governments excluded). Such an expansion is welcome if access to the fund is available to PHAs or their non-profit affiliates. These funds should be available to PHAs and allowed in combination with other sources to preserve or replace public housing units. The mandated leverage ratio of the CMF, private to public is 10:1. CHA's ratio is 16:1 for our RAD Phase 1 conversion so PHAs can meet this requirement. The expansion with PHA eligibility is highly recommended.

**Prioritize preservation and stock transfer to high capacity non-profits** – this
recommendation touches on two overlapping issues: (a) expansion of RAD; and (b) the suggestion that transfer of public housing to "more cost effective" non-profits (similar to the council transfers to associations in the U.K.) is a strong pathway to preservation. The discussion of this recommendation in the HPN Report also notes that RAD shares common elements with LSVT process in the U.K.

(a) The expansion of RAD above the current unit cap is an option that Congress should consider, but with some qualifiers. Many RAD transfers are platform changes with minimal rehabilitation suggesting that PHAs are opting to exit the public housing model; this is not unexpected given the heavy regulatory burden on PHAs, additionally over the long term the RAD conversion allows better positioning for the property to access private capital if the property is subsequently re-financed. But for units that need deeper rehabilitation RAD seems to fall short because the income stream to support higher debt is not there. More financial modeling is required to understand the financing weaknesses of RAD in those markets where it is not feasible. (See the recommendation on MlW single fund flexibility in the next section.)

(b) In our view it is undetermined that the transfer of aging public housing stock to non-profit social enterprises is the "more cost effective" option. The HPN Report suggests that these entities have the "...business skills to structure complex preservation transactions..." Again our comment on the recommendation is that as a matter of policy we must be entity neutral. Some non-profits are very good at this but are so are many PHAs. PHAs do retain "public agency" requirements that do not apply to non-profits and could add costs; but how all this plays out in preservation activity across different markets is unclear.

Perhaps, of more concern is that all entities, public housing or non-profit, are competing for a limited pool of tax credit capital. As preservation needs escalate the demand for tax credits increases and in some States the current tax credit equity pool is stretched beyond capacity. In traditional public housing there is already a lack of operating subsidy to cover debt, and now there is much stiffer competition across the board for tax credits, no matter the tax character of the entity pursuing the preservation.

One point of discussion in the HPN Report, Large Scale Voluntary Transfers (LSVT), deserves more attention. For this to work in the U.S. major transactional issues must be addressed. To attempt any LSVT three recommendations are offered:

1) Beyond RAD, or the existing PH disposition process, there should be a third option to release the declaration of trust; specifically, replace the declaration with a long-term use restriction. The use restriction can be drafted to keep the property as a resource for low-income families but also be much more favorable to attracting private capital; this is a change that could be made on a demonstration basis and scaled later for all public housing units. The switch to a use agreement should be separated from the demands of a complex,
preservation and financial transaction. Over time such an action will give the PHA, a non-profit partner, or successor entity immediate flexibility to liberate the value of the asset with private financial opportunities similar to a private owner who has access to the full value of the asset.

(2) In conjunction with (1) create a new type of housing preservation fund that, unlike the LIHTC, is not linked to a property by property conversion but is instead designed to provide funding for portfolio wide repositioning. The fund resides, like the CMF, at treasury and allows a private equity investor to receive a portfolio tax credit $1 for $1 when private capital is deposited for a specific portfolio conversion project. The cost of the credit is covered by a 1/2% adjustment in the mortgage interest deduction. (Such an adjustment is worth about $345M year.) These two steps together could energize a U.S. version of the LSVT targeted at preservation and recapitalization of all affordable units.

(3) The third recommendation is to use the Moving to Work expansion to test these ideas and facilitate the regional MTW agency concept described in last year’s expansion legislation. (An existing MTW agency can petition the Secretary to bring in an adjoining Agency under the in-place MTW agreement.) The single fund flexibility provided to MTW agencies would multiply the impact of these efforts. The MTW expansion language also calls for 5 agencies to be selected with RAD portfolio conversions. The existing RAD demonstration language is already flexible enough on it’s own to allow this group of agencies use this flexibility.

As with other discussion in this testimony, the LSVT approach should be "entity neutral". In any LSVT the PHA, acting through a non-profit subsidiary, may be the recipient of such a transfer. All of these LSVT recommendations can easily be tested inside the existing MTW/RAD demonstration platform, especially when these two powerful demonstration programs work together as a hybrid for innovation.

Use a portfolio model for multifamily housing preservation

Elements of this recommendation already exist in the U.S. system and ought to be provided to all owners, again in an entity neutral fashion. HUD's current Public Housing Asset Management model, often extended by MTW flexibilities, is capable of achieving many aspects of the portfolio model discussed in HPN. The public housing operating fund regulations at 24 CFR 990 provide for asset management, require property based budgeting and reporting and property based management requirements, but also allow fungibility across properties (see 24 CFR 990.205 and 990.280) when there is excess cash flow. This is good model to transfer across all HUD subsidized properties.

Excess property income over expenses can be moved across properties (strong performers helping weaker ones) or into a central fund that the owner can then provide to a specific property that needs help in a particular year. We still need to know what percentage of the rent we are collecting, what the vacancy rate is and what the
preventive maintenance performance is at each distinct property. We also need to know what transfer subsidies are provided each year to each property, because the year may come when we can't do that. This option also creates the possibility of providing a resource for services or community improvements as discussed in the next section. (One tweak for any property is to change existing HUD requirements around energy savings to allow the PHA or non-profit owner to keep all savings earned.)

Make housing a platform for improving communities and building assets for residents

We could not agree more. Carefully crafted programs with respect to youth engagement and asset building can change the course of many lives. This is another recommendation that deserves an opportunity flourish and MTW once again helps U.S. get there. In Cambridge, using MTW flexibilities, we have embarked on three asset development options for low income families: (1) a MTW modified version of Family Self Sufficiency (FSS+); (2) as part of our comprehensive after school support program, the Workforce, we have embedded a matched savings component for graduating seniors (who can exit high school with up to $3000); and (3) we are experimenting with an automatic saving program for Public Housing families called Rent to Save where a small portion of rent is set aside for the family in an escrow account. Two of these programs are operated in conjunction with our non-profit partner, COMPASS Community Capital. Other MTW agencies are also experimenting with asset building and comprehensive youth engagement opportunities.

The Cambridge Workforce program starts in the 8th grade and runs through senior year of high school. We have sites at the property and one in the high school. Kids in this program graduate from high school at a rate of 93%, the majority go on to secondary education options, and about 66% are not living in public housing 6 years after high school graduation. In the Urban Institute HPN Report, Atlantic Exchange: Case Studies of Housing and Community Redevelopment in the U.S. and U.K., best practice recommendations from both the U.S. and U.K. communities stressed the, “... importance of effective youth engagement to the maintenance of a peaceful community, development of future leaders, and the future self-sufficiency of youth. Castle Vale [in the U.K.] offers a model of youth programming with dedicated staff through on-site community centers. The challenge here is securing sufficient funding over time to allow for dedicated staff.” [Brackets ours]

Three recommendations in support of the HPN Report follow:

1. To address the funding needed to build assets we recommend expansion of the existing FSS program but with much more flexibility for local innovation.
2. To fund such programs, we also recommend expanding, to non-MTW agencies, limited single fund flexibility. (SFF is the ability to move Section 8 and 9 funds without regard to traditional funding restrictions). Single fund use can be targeted to both the preservation of units and/or youth and asset building.
(3) A third use of SFF is to pick up on recent mobility research by Raj Chetty and others to cover the cost of a wide range of mobility interventions and balance mobility move opportunities with the in-place strategies as described in the Urban Institute HPN Report.

**Improve access to affordable homeownership**

CHA does not work in market where homeownership options for low-income families are viable. (Cambridge rental and sales markets are typically some of the most expensive in the country.) The City of Cambridge estimates that the annual income needed for a family of four to take the first step toward self-sufficiency is $108,800. The cost to jump from either Section 8 or public housing to a private, non-subsidized, rental unit is steep when $7,000 to $10,000 is needed to make the security deposit, first and last month’s rent. Beyond this entry issue is the question of whether or not the family can afford the rent over the long term. In our market for rental we see no chance for homeownership. So our response to this recommendation is that access to homeownership is market driven. Further, we do not recommend selling off public or other affordable units as was done in the U.K. with Right to Buy. About 2.2M units have been transferred under Right to Buy but the results are very mixed, especially when selling off units in multifamily sites where the owner has not been able to sustain the unit over the long term.

This concludes my written testimony and I want to thank the committee for this opportunity, my hope is that you find some of these ideas intriguing enough to take the next step.

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